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16 JUNE 1987



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# ***JPRS Report***

## **East Europe**

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# **SPECIAL NOTICE**

Effective 1 June 1987 JPRS reports will have a new cover design and color, and some reports will have a different title and format. Some of the color changes may be implemented earlier if existing supplies of stock are depleted.

The new cover colors will be as follows:

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WEST EUROPE.....	ivory
AFRICA (SUB-SAHARA).....	tan
SCIENCE & TECHNOLOGY.....	gray
WORLDWIDES.....	pewter

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16 JUNE 1987

# EAST EUROPE

## CONTENTS

### POLITICAL

#### ALBANIA

Alia Visits Lushnje Collectives (ATA, 23 May 87) .....	1
Youth Union CC Plenum on Education Held (ATA, 12 May 87) .....	2
Behavior of Soccer Supporters Deplored (Kastriot Kruja; ZERI I POPULLIT, 17 May 87) .....	3
AWP Journal on Tasks Confronting Science (RRUGA E PARTISE, Apr 87) .....	6
Party Organ on Struggle Against Indifference (Editorial; ZERI I POPULLIT, 3 Apr 87) .....	9
Briefs	
Hametaj, Thomai Visit Power Station	11
Alia, Carcani Send Thanks	11
Foreign Minister Sends Thanks	11
Alia, Leaders Attend Concert	12
Kapliani Attends Embassy Reception	12
Alia Greets Husak	12

## CZECHOSLOVAKIA

Josef Havlin Addresses Czech Drama Artists' Congress (PRAVDA, 5 May 87) .....	13
----------------------------------------------------------------------------------	----

## HUNGARY

Proposal on 'Communist Saturdays': Make Work Voluntary (Erzsebet Molnar; NEPSZABADSAG, 10 Apr 87) .....	15
------------------------------------------------------------------------------------------------------------	----

Economic 'Adaptability' Urged (Andras Inotai; HETI VILAGGAZDASAG, 28 Mar 87) .....	19
---------------------------------------------------------------------------------------	----

## ROMANIA

Ceausescu's National Day Message to CSSR Counterparts (Nicolae Ceausescu, Constantin Dascalescu; CINETEIA, 9 Mar 87) .....	24
----------------------------------------------------------------------------------------------------------------------------------	----

CSSR Embassy Press Conference Marks National Day (AGERPRES, 4 May 87) .....	26
--------------------------------------------------------------------------------	----

Dobrescu Receives SRV TV Chief Pham The Duyet (AGERPRES, 14 May 87) .....	27
------------------------------------------------------------------------------	----

Ceausescu Receives Gabonese Envoy's Credentials (AGERPRES, 8 May 87) .....	28
-------------------------------------------------------------------------------	----

Ceausescu Meets Arges County RCP Bureau Members (AGERPRES, 14 May 87) .....	29
--------------------------------------------------------------------------------	----

## Briefs

Ceausescu Receives Mauritania's Fishing Minister	30
RCP's Constantin Meets Greek Florakis	30
Syrian President Thanks Ceausescu	30
Al-Asad Thanks Ceausescu for Message	31
Ilie Cisu Appointed Ambassador	31
Officials Greet CSSR Counterparts	31
Ceausescu Condolences to J/ruzelski	31
Kim Il-song Thanks Ceausescu	31
Ceausescu Greet Greek CP Leader	32
Economic Contract Signed	32
Ceausescu Visits Economic Units	32
Ceausescu Concludes Visit	32

## ECONOMIC

### HUNGARY

New Credit Bank's Independence, Prospects Discussed (Sandor Demjan Interview; FIGYELO, 16 Apr 87) .....	33
------------------------------------------------------------------------------------------------------------	----



Tax Reform: Implications of Value-Added, Income Taxes Viewed (Otto Gado; FIGYELO, 16 Apr 87) .....	39
-------------------------------------------------------------------------------------------------------	----

POLAND

Theses on Second Stage of Economic Reform Published (RZECZPOSPOLITA, 17 Apr 87) .....	44
------------------------------------------------------------------------------------------	----

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## ALIA VISITS LUSHNJE COLLECTIVES

AU231356 Tirana ATA in English 0745 GMT 23 May 87

[Text] Tirana, 23 May (ATA)--On May 22 afternoon, Comrade Ramiz Alia made visits to the brick factory and the Agricultural Research Institute in the city of Lushnje. He was accompanied by the first secretary of the district party committee, Sulejman Bushati and the chairman of the executive committee of the district people's council, Gjergji Velo.

At first Comrade Ramiz Alia went to the brick factory, where he was lovingly welcomed by cadres, workers and specialists as well as by cooperativists of Golem village. There he met with workers, men and women, young boys and girls and warmly greeted them. Comrade Ramiz Alia stopped near a group of veteran workers and shook hands with them.

At the minute articles section he met and warmly talked with workers and specialists, who acquainted him with the articles under production and their technological process.

Comrade Ramiz Alia was received with applause by a group of workers of brick-kiln. They acquainted him with the plates production decorated with Myzeqe motives, with their efforts to turn out high quality products, while in the brick section he got acquainted with some of the new products which improve technology and accelerate the rates in construction. Comrade Ramiz Alia congratulated the workers and specialists and wished them fresh still greater successes. Then Comrade Ramiz Alia went to the Agricultural Research Institute where he was warmly received by leading cadres, specialists and workers of this scientific center.

The director of the Institute informed Comrade Ramiz Alia of the research scientific activity of this first study center in the field of agriculture created 35 years ago.

On May 22, Comrade Ramiz Alia attended a concert given at the house of culture by the professional and amateur artistic groups of the district of Lushnje.

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## YOUTH UNION CC PLENUM ON EDUCATION HELD

AU121223 Tirana ATA in ENGLISH 0900 GMT 12 May 87

[Text] Tirana, 12 Mar (ATA)--The plenum of the CC of the LYUA, [Labor Youth Union of Albania] role of the youth organizations at schools, for the Assimilation of the contemporary knowledge, of the practical qualification of the pupils and students etc., was held yesterday in capital.

Present were also the minister of education Skender Gjinushi, the rector of the "Enver Hoxha" university of Tirana Professor Osman Kraja and other comrades.

The meeting was declared open by the first secretary of the CC of the LYUA Mehmet Elezi.

The report and discussions pointed out that our youth is realizing ever more better that the important mission the party and Comrade Enver Hoxha have charged it with as the most lively force in the construction of socialism can be carried out only by acquiring contemporary knowledge and all-round culture. The last years' growing results in the 8-year secondary and higher education, the active participation of the school and student youth in all the undertakings as well as its readiness to serve where the country needs them are an evidence to this. At the plenum there was generalized the good example of the youth organizations of the districts of Gjirokaster, Permet, Tirana, Sarande and Skrapar as well as the youth of some higher schools who applying the tasks set by Comrade Ramiz Alia at the 9th Congress of the party have enhanced their mobilization and have attained good results.

The member of the party General Committee Anastas Kondo took the floor, too.

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## BEHAVIOR OF SOCCER SUPPORTERS DEPLORED

AU211828 Tirana ZERI I POPULLIT in Albanian 17 May 87 p 3

[Kastriot Kruja article: "Let Us Be Sports-lovers, Not Fans"]

[Text] Some days ago various wall newspapers appeared one after another at a corner of the main square in Tirana. According to the signatures they were written by groups of sports-lovers from the town of Lac, who disagreed with the verdict of the Albanian Soccer League against their team, "Industriali," after its match against "Terbuni" at Puke in the third division championship. We will not go into the unsportsmanly behavior that was observed at that match, for SPORTI POPULLOR and the Kruje District party committee organ KASTRIOTI have written about it. But there is one thing which is very striking: Why are the Lac sports-lovers so persistent in attempting to reverse the decision of the forum at any cost? Is not this an open symptom of a fan mentality, and not an attempt to reverse a miscarriage of justice, as is claimed. Before writing one wall newspaper after another, would it not be more in order for these groups of sports-lovers and their collectives to analyze more maturely how this unsportsmanly behavior arose, who incited it, and what steps should be taken against these people? Of course, these collectives are doing well in discussing production questions -- but this subject affects production too, and such a debate would quell certain unhealthy enthusiasms, and eliminate vacuous conversations and discussions which consume working hours and people's free time. It is a question of being sports-lovers, not fans.

Taking place today are the matches of the last day of the national championship in soccer -- the most popular sport in our country. Will "Partizani" emerge as champion after its away match at Gjirokaster, or will it lose and finish equal with "Flamurtari" after a victory of the Vlore team at Berat? Which team besides "Traktori," will be relegated to the second division? These and other questions are in the minds of all sports-lovers whose desire is to spend a day of sports in a cultured way, and who consider sports as a way of spending their free time pleasantly. These sports-lovers may have a favorite team, but in the end they are pleased at every success of our sports, just as they are bored by dreary matches and teams that are not up to the mark and do not justify the party's care for the development of our sports.

We are not simply talking about soccer. Sports-lovers cannot simply follow one sport, and sports-lovers especially cannot just follow one team or club. They can have their favorites, but they must be pleased at the performances of other teams, too, which in the end lead to general improvements in the quality of our sports. Still less can a sports-lover resort to various cunning tricks, such as medical certificates, etc, to absent himself from work to follow his team from one town to another. Nor can you be a sports-lover and still shout "referee, referee" in the stadium; the decision made against your team might be a correct one. You are a sports-lover in the true sense of the word when you applaud not only the team you support, but the other team too when it plays well, and even when it wins.

We stress this because there are signs of a fan mentality in our sports life, even though healthy, objective, and correct public opinion exhibits a true love of sports. What does being a fan mean? It means to be subject to feverish spasms, as if one suffered from typhus, and the loss of all power of right action and judgment. At matches this symptom is evident in shouts, insults, and sneers, which unfortunately are not in short supply. Away from matches these symptoms take the form of endless discussions with complaints without the slightest objectivity concerning the judgment or fair play of the opposing team, alongside justifications of the unfair moves of players you support. For these reasons a fan mentality destroys the healthy and well-mannered atmosphere which should prevail at all sports events, which should be celebrations, active forms of relaxation, and a kind of education.

A fan mentality harms work too. It is a fact that people in some collectives have ardent discussions over sports for hours on end. This means lost productivity, and lower output. The time lost can be made up with extra effort, but that lowers quality. Sometimes these losses are underestimated, and people say, "Oh, well, he is only a fan. There is no harm in that."

Some sportsmen encourage a fan mentality themselves, with gestures of disagreement, or with strange behavior to express joy over goals. More than once we have seen even players of repute raising their fists to the spectators, sliding on the turf or performing somersaults, and even riding piggyback, something which has nothing to do with the traditional game, and is not a proper way of expressing happiness.

We often associate a fan mentality with youth, and whenever there are symptoms of such a thing, we are inclined to go in search of a young person. Our young people love sports, but do not love it merely as passive spectators; primarily they love sports as participants, because they relax and keep themselves in trim in this way. They could do more of this. Today the national soccer championship ended. Has the sports season finished? No. To what extent do young people utilize all the sports facilities we have, from those in enterprises to those in agricultural cooperatives? It would be a partial judgment to be content with the programs devised at the start of the year, and to think that our young people are only enthusiastic about taking part in mass actions of various kinds. Such an attitude would not help



their education. The summer can and must be continually filled with outings, swimming races, and competitions in the traditional games our sports-loving young people enjoy. It was a very laudable initiative of some district youth organizations when they decided some time ago to hold their competitions and activities in the open air.

Healthy public opinion on sports cannot accēpt a fan mentality, and considers it a malady alien to our society. In the final analysis, a sports event consists merely of a few hours of free time, and there is no need to pay any more attention to it than it deserves. Our people have broad cultural, artistic, scientific, and political interests. Above all they are interested in doing their work better, and fulfilling their duties on the fronts where they labor. This is why the persistence of the wall newspaper writers from Lac seems to us to be wrong.

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## AWP JOURNAL ON TASKS CONFRONTING SCIENCE

AU171515 Tirana RRUCA E PARTISE in Albanian Apr 87 pp 5-16

[Speech by Foto Cami, AWP Central Committee Politburo member at meeting of the Academy of Sciences held on 16 March 1987 to examine the tasks confronting Albanian science in the light of the decisions of the Ninth AWP Congress: "Our Science Should Competently Confront the Great Tasks Set Out by the Ninth AWP Congress"]

[Excerpts] The party has constantly attached particular importance to the great role of science in the country's socioeconomic development. Various congresses, plenums, and other important party meetings have stressed this role and have outlined the directions of its development.

The Ninth AWP Congress stressed that in our time "science is very closely linked with production and has been transformed into a direct productive force. The value of every science is therefore also measured by its benefit to production, the increased efficiency of the economy, the easing of the work of people, and its increased productivity."

What is currently being required from science are results, solutions, and suggestions on how to promote production, that it should competently confront the great tasks of the development of productive forces, and resolve the problems raised in various sectors of the economy.

The problems confronting us are considerable and complicated. And big problems require big solutions. In this, however, we are being hindered very much by narrow and sometimes even pre-industrial concepts, as well as by sectorial and departmental tendencies. This is not a question of resolving the problems of a cooperative or of an enterprise, but of resolving these problems in a decade, but now. Science should militate and act precisely with regard to these big issues.

Giving priority to the natural and technical sciences, and particularly to the applicative sciences, the Ninth AWP Congress stressed that this does not mean neglecting and underrating the social sciences, which play an important role in the country's life, the communist education of the masses, and in resolving the conceptual problems arising in society.



Progress has been made and achievements have been attained in these fields of knowledge, too, particularly in those dealing with the history, language, and culture of the Albanian people, and major works have been published and scientific activities of a high standard have been organized.

It is important that the institutions dealing with these sciences and the people working in them should understand and apply in practice the demand made by the Ninth AWP Congress that "the major place in these sciences should be occupied by the work of generalizing and synthesizing, by profound scientific conclusions, avoiding the descriptive character still observed in a considerable number of studies."

In the field of history, analyses have indicated that there are manifestations of superficiality and subjectivism and that archival and bibliographical sources are insufficiently used. In the field of literature, few efforts are being made to become more deeply acquainted with the values of the literature of socialist realism, the problems of its formation and enrichment, and the innovative trends of development, and there is also a lack of profound analyses of creativity and literary and artistic processes. In the field of culture, there are manifestations of empiricism and simplified presentation. In the field of archaeology, the factual material of certain studies is poor and there are too few conclusions and too many descriptions. In the field of linguistics, the scientific foundation is at times shallow and the theoretical level is removed from the demands of the time.

The sphere of social studies is a considerably broad one. It extends on the ideological and political front, in the field of education and culture, of organization and management, and in the field of foreign policy and international relations. The problems that need to be studied in all these fields are numerous and it would be superfluous to list them all.

When speaking about social sciences we cannot fail to mention the special role of economic sciences, from which a certain "mildew" and "academicism" must be shaken off, as the party pointed out once again at its second Central Committee plenum. The lag that exists in economic thinking cannot be justified in any way, since we have great human resources in this sector.

We possess specialized scientific institutions, such as the Institute of Economic Studies, and we have an entire economics faculty with numerous sections and a large staff. We have economists working in other scientific bodies and an entire army of economists working in the state and economic organs from the base up to the central departments. But we lack profound studies containing big solutions and concrete suggestions to rationalize production and to increase it, to raise the productivity of social labor, and to use investments and various economic levers and mechanisms at a high degree of efficiency; to harmonize, in accordance with our principles, the interests of society with those of the individual, the interests of the state with those of a particular group or groups; to improve the forms of the organization, management, and planning of the economy; we lack studies concerning problems pertaining to the remuneration of work and incentives, and so forth.

We generally have too little creative thinking in the economic sciences, but also in the philosophical and political sciences. A certain hesitation to express opinions openly and courageously is observed, as well as metaphysical attitudes considering everything that has been already declared perfect. But life is in continuous movement and development. New problems are continually arising in this process, requiring solutions, and these solutions must be adapted to new situations. It is not right that everything should be decided upon from above, when more problems should be raised by others, with suggestions and concrete measures to resolve them.

The Marxist-Leninist theory, the party's and Comrade Enver Hoxha's teachings, and the experience that we have accumulated constitute those firm foundations on which we must rest meet all problems and tasks arising in all fields of life. And if we have mastered these foundations not only in the letter, but in their essence, then there is no reason for any hesitation in making those changes that are dictated by life. What is essential is that the country's freedom and independence should be protected and strengthened, that the people's authority and its democratic nature should be preserved and consolidated, that the social ownership of the means of production should be preserved and strengthened, and that exploitation and the creation of exploiting classes should not be permitted. Other things can and must be changed when this becomes necessary: suffice that they do not affect the foundations of our socialist system, but serve them.

No harm comes to socialism, on the contrary, from the creation of small herds at brigade level and by supplying the villagers with vegetables, beans, and potatoes at village level, instead of from a single center. Society can only benefit from certain changes in the wages system and incentives in order to better harmonize the interests of the state with those of the individual and to stimulate creative and innovative work. The principle of democratic centralism is not trampled upon; on the contrary, when the state keeps the keys of the economy in its hand and grants more initiative to the agricultural cooperatives to make their own decisions concerning those matters that they are better qualified to decide how things should be done. In the same way, none of the basic principles of socialism are affected when changes are made in the purchase price of agricultural products in order to stimulate production and to better harmonize the interests of the state and those of the group, and so forth. But why did all these measures, which have been adopted recently by the party and by the government, have to be dictated only from above?

One of the most fundamental things that characterizes and distinguishes science is creative thinking, the blazing of new trails, the illumination of the future. Science is by its own very nature materialistic, dialectical, and revolutionary. The most concrete example of this is provided by our very world outlook, by the Marxist-Leninist science itself, whose fundamental duty was seen by Marx as lying not in the explanation of the world, but in its transformation. This creative, transformative, and revolutionary spirit is the one that must run through our entire science and that must characterize all the people working in science.

## PARTY ORGAN ON STRUGGLE AGAINST INDIFFERENCE

AU111714 Tirana ZERI I POPULLIT in Albanian 3 Apr 87 p 1

[Editorial: "A Broader Concept of the Struggle Against Indifference"]

[Excerpt] Our party has waged a consistent and determined struggle against indifference, sluggishness, self-withdrawal, and passivity. It has always characterized these manifestations as a dangerous sickness for socialism. The results of this struggle are undoubtedly very considerable.

It is a fact that the masses have strong political and ideological sentiments. There is a growing conviction that it is their duty not only to participate actively in productive activity, but also in the country's government and its socio-political life. The masses have acquired a sharp awareness that one must give to society before receiving from it. The sense of civic duty and responsibility of the people has been raised.

But indifference has not been eradicated. As is known, there are cases of the weakening of vigilance, and even more dallying and apathy. A narrow concept of indifference exists among some cadres. They consider an indifferent attitude to be mainly a passive attitude toward unseemly behavior in the streets, at work, in the home, or at centers of recreation. It is obvious that indifference must be criticized in the case of citizens who remain silent when a child picks flowers, but must be opposed primarily as an anachronistic mentality which makes a person shut himself within his own shell, which removes him from the intensive activity of society, from the struggle and efforts to further promote attainments.

Indifferent attitudes are anachronistic in all situations, but particularly so at moments of raised elation, fervor, and massive actions. The masses have made considerable progress. Actions follow actions. In the capital itself, the action to secure industrial water supplies from sources that are separate from potable water supplies, is nearing completion. Results that are worthy of praise are being attained in Vlore, to accelerate the employment of all the new manpower. The youth is sparing no efforts in railroad construction, in tending olive groves and in the livestock sector. Considerable results are attained in the production of new articles in Korce, Shkoder, and elsewhere. There is no room for apathy and indifference in this atmosphere of initiative and fervor at work. The sluggish and lazy are more out of tune than ever before.

Indifference does not mean to remain silent when confronted with weaknesses and shortcomings. It is possible to speak out and adopt positions against such weaknesses and shortcomings, and still remain on indifferent positions, when one does not work, when one's words and deeds do not match. Meetings are being held as are discussions on the need to fulfill plans at the Bulqize and Bate chrome mines, but the deficits are not being reduced in practice. Indifference also means to adapt to a backward situation, to accept weak results, and to be reconciled with euphoria and empty promises.

Our society maintains active positions toward difficulties and obstacles that may be encountered on our advance, as well as toward backward manifestations of the past. Every worker, communist, and citizen must find himself, must find his position as a militant in the struggle against all those factors and forces hindering progress. Only through passion and from a militant position can obstacles be overcome.

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## BRIEFS

HAMETAJ, THOMAI VISIT POWER STATION--Tirana, 14 May (ATA)--The builders of the hydroenergetic complex of Banje, the greatest project of this five year plan in our country, attained one of the main targets of the first stage: the deviation in canal of Devoll river, which opens perspectives to the intensification of work in building this project. From the very beginning of the work about 270,000 cubic meters of excavations in rocky formations 450,000 cubic meters of concrete, etc., were laid in the project likewise, a 350 m long canal was built for deviating the river with a discharge capacity of 1300 cubic meters in second. This collective overfulfilled the tasks of the four months in the volume of construction by 2.5 percent, labor productivity was realized by 100 percent and the task of lowering the cost by 100.5 percent, etc. On this occasion a rally was organized at the construction site of the project, which was attended by the minister of energetic, Lavdosh Hametaj; the minister of agriculture, Themie thomai; the chairman of the Committee of Science and Technique, Ajet Ylli; the first secretary of the Gramsh District Party Committee, proposed Meta, and other comrades. [Excerpt] [Tirana ATA in English 0730 GMT 14 May 87 AU] /12624

ALIA, CARCANI SEND THANKS--Comrade Ramiz Alia, first secretary of the Albanian Party of Labor Central Committee and chairman of the People's Assembly Presidium of the People's Republic of Albania, and Comrade Adil Carcani, chairman of the Council of Ministers of the People's Republic of Albania, recently sent a message of thanks to Comrade Heng Sarin, general secretary of the KPRP Central Committee and chairman of the Council of State, and Comrade Hun Sen, chairman of the Council of Ministers of the PRK. The message reads: We thank you for the greetings you sent us on our reelection as chair of the People's Assembly Presidium of the People's Republic of Albania and as chairman of the Council of Ministers of the People's Republic of Cambodia. We take this opportunity to wish the Cambodian people more success in their labor and efforts for economic development and for the salvation of freedom and national independence. [Text] [Phnom Penh Domestic Service in Cambodian 1300 GMT 11 May 87 BK] /12624

FOREIGN MINISTER SENDS THANKS--Comrade Hong Korm, PRK minister of foreign affairs, recently received a message of thanks from Comrade Reis Malile, minister of foreign affairs of the People's Socialist Republic of Albania. The message noted: I would like to express my cordial thanks to you for your best wishes extended to me on my reappointment as the minister of foreign affairs of the People's Socialist Republic of Albania. [Text] [Phnom Penh Domestic Service in Cambodian 1300 GMT 13 May 87 BK] /12624

ALIA, LEADERS ATTEND CONCERT--Tirana, 25 May (ATA)--May concerts given in the capital these days, organized by the Executive Committee of the Tirana District People's Council were another powerful manifestation of our musical and choreographic art, of their great development over the years of the party. They claimed distinction for their high ideartistic level, diversified topics with motives from life, work and history of our people. A concert with selected items was given at the Palace of Congresses last night. Attending were Comrade Ramiz Alia, first secretary of the Central Committee of the party and president of the Presidium of the People's Assembly as well as Comrade Adil Carcani, member of the Political Bureau of the Central Committee of the party and chairman of the Council of Ministers, and Comrades Besnik Bekteshi, Foto Cami, Hajredin Celiku, Hekuran Isai, Lenka Cuko,, Manush Myftiu, Muho Asllani, Pali Miska, Prokop Murra, Simon Stefani, Kico Mustaqi, Llambi Gegprifti, Pirro Kondi, Qirjako Mihalj, Vangjel Cerrava, members of the Central Committee of the party, the Presidium of the People's Assembly and government. Those present burst out into ardent applause and acclamations when Comrade Ramiz Alia and the other party and state leaders entered the hall. Comrade Ramiz Alia warmly greeted those present. [Excerpt] [Tirana ATA in English 0730 GMT 25 May 87 AU] /12624

KAPLLANI ATTENDS EMBASSY RECEPTION--Tirana, 9 May (ATA)--On occasion of the National Day of Czechoslovakia, the charge d'affaires a.i. of the Embassy of the Czechoslovak Socialist Republic to the People's Socialist Republic of Albania, Otto Jacek gave a reception at the Embassy seat on May 8. Attending were the vice minister of foreign affairs, Muhamet Kapllani, the vice-minister of foreign trade, Konstandin Hoxha and other guests. Present were also heads and officials of the diplomatic representations accredited to the People's Socialist Republic of Albania. [Text] [Tirana ATA in English 1710 GMT 9 May 87 AU] /12624

ALIA GREETES HUSAK--Tirana, 9 May (ATA)--The President of the Presidium of the People's Assembly of the People's Socialist Republic of Albania, Comrade Ramiz Alia, sent the following message of greetings to the President of the Czechoslovak Socialist Republic Gustav Husak: "On occasion of the National Day of the Czechoslovak Socialist Republic, on behalf of the Presidium of the People's Assembly and in my name, I extend to the Czechoslovak people the best greetings and wishes for happiness and prosperity". [Text] [Tirana ATA in English 1703 GMT 9 May 87 AU] /12624

CSO: 2020/104

## JOSEF HAVLIN ADDRESSES CZECH DRAMA ARTISTS' CONGRESS

AU221355 Bratislava PRAVDA in Slovak 5 May 87 p 2

["From the Speech of Comrade Josef Havlin," CPCZ Central Committee secretary, on the opening day of the Fourth Congress of Czech Drama Artists on 4 May in Prague's Palace of Culture]

[Excerpts] Josef Havlin began by pointing out how extraordinary our days are and how indivisibly they are linked to the recent friendly visit of Mikhail Gorbachev, CPSU Central Committee general secretary, to the CSSR. We are convinced, he said, that the visit and the talks will emphatically contribute to further friendship between the peoples of Czechoslovakia and the Soviet Union, to the development of cooperation in all spheres of social activities and to the development of the people's working activities, aimed at consistently fulfilling the line of the 17th CPCZ Congress.

He stated that the development of culture and arts is inseparably linked to the fulfillment of the strategic line of accelerating social and economic development of our country, with the intensification of social production and lasting growth of its efficiency, and with the constantly increasing efficacy and quality of all work and all social life.

Under the conditions of restructuring the economic mechanism, the demand to greatly enhance the entire dynamics of the development of socialist culture and arts is increasingly coming to the fore, as is the demand for their most effective social implementation as an active and transforming force in the processes of socialist construction, as an irreplaceable tool for raising the new man.

Our top party agencies are striving to deal more resolutely and efficiently with the problems and shortcomings which make the work of artists' unions and of artists themselves more difficult, and to improve conditions for developing artistic creativity and to promote its mediation [sprestredkovanie]. However, at the same time their responsibility for the impact of their works on society and for the dissemination of truly artistic values must be increased.

This is connected with the need to eliminate incorrect methods from work with the creative intelligentsia wherever they appear, and to remove subjectivity and unqualified interference in the creative process, as well as eliminate



the enforcement of personal interests to the detriment of the collectives' interests, or even the interests of the entire society. We must not justify inadmissible methods in working with the creative front, we must not tolerate them or consider them normal; nor must we regard them, in individual instances, as a manifestation of a principled approach to dealing with problems and phenomena which even the sphere of culture and the arts is not spared. On no account must we let the great care devoted by the party and the state to culture and the arts be discredited.

Our theater, and television, film, and radio drama, should more emphatically draw their inspiration from the experience of Soviet art, which very consistently avoids shaping various pseudo-problems into works of art; but which uncovers what is truly substantial, courageously calling things by their right name and depicting our socialist reality in an artistically successful manner.

Currently our theater stage, our television and film screen, and also our radio rather noticeably lack heroes who are pioneers of new thinking, bearers of scientific-technical progress, and propagators of the development of electronics, computer technology, informatics, and other progressive sectors of human work.

In stressing the need to have drama works with contemporary themes, we do not mean to reject the art works which deal with the past, which draw on history for their topics. We appreciate the fact that truly artistic values have recently appeared, which have succeeded in speaking about present problems through the destinies of ancient times.

The artists' unions and the creators themselves should be exacting appraisers of works of art, and they should fight for all that is new and progressive; they should always stand at the party's side and resolutely oppose all that is antisocialist, antiparty, and damaging to the good name of our fatherland in the world.

Accept sincere thanks for all that you have done to make Czech dramatic arts flourishing, together with the sincere wish that all your efforts should lastingly enrich our socialist culture and arts and contribute to the attainment of all the grand aims which we have set ourselves by building socialism.

/8309

CSO: 2400/293

## PROPOSAL ON 'COMMUNIST SATURDAYS': MAKE WORK VOLUNTARY

Budapest NEPSZABADSAG in Hungarian 10 Apr 87 p 3

[Article by Erzsebet Molnar: "Let Them Decide"]

[Text] The communist Saturday is not like it used to be.

A long time ago, during the "heroic era", when factories, bridges, houses and cities mushroomed incredibly fast from the ground, social work must have meant a lot to individuals too. It must have been the most natural thing to do in those days: let's go--of course we'll go--this country is ours, and we want those houses, factories, roads, developments and schools to mushroom from the ground, so that we have a place to work, a place to live, and kindergartens and schools for our children too. Our children deserve a better life than what we have.

I am personally unfamiliar with this kind of enthusiasm, but a few newsreels and documentaries of the period sufficed to convince me: that's the way it was. So much so was it that way, that right there, in those days, I too would have been overcome by the outpouring of exuberance.

Are You Sure It's For That Purpose?

But I live today, in 1987. I've seen a few plants on communist Saturdays and can thus say that the Saturday shift was perceived everywhere as some 'must do' endeavour. 'Must', because although not obligatory, absences would be 'noted'. Attendance figures, happenings, how it went must be reported. Frequently the strongest motivational forces are unofficial external duress and habit, rather than individual zeal. And although it makes no difference regarding the end result, attendance was "100 percent". But considering the prevailing mood, and mainly the sense of this matter, it was far less than 100 percent.

At all the enterprises where I was in charge of writing employee newsletters, there always appeared to be a few people who, following communist Saturdays picked up the phone and queried the editor of the paper (!). For what purpose will the Saturday shift's income be spent? There were some who continued with their questions. Why, for that purpose? And who benefits from it?

Are you sure it goes for the stated purpose? The latter question was difficult to answer, because even though the one who posed it could not have known, on occasion I did have a chance to see the backstage. In glancing at balance sheets and reports I found that the question was not fully unjustified. It did happen now and then that if the need arose, part of the income was used for other purposes. Well, as long as these questions are repeated year after year--and they are--we may be certain that something is wrong. We know that the communist Saturday is far from the way it used to be.

It is different, not only as compared to the above described heroic era. Since then there had been some smaller and larger heroic periods in our factories, and indeed kindergartens, nurseries and what have you have been built. They were built with a respectable amount of social work. But since then the threads got tangled up. Masses of people had left several large enterprises of renown, trusts dissolved, child care and recreational facilities changed hands, and so on and so forth. There should be no misunderstanding. Not even by accident would I dispute the economic rationale of today's occasional corrective decisions. I am only trying to put myself in the place of a person who lived through all this. If he is still there--if he hasn't left the factory yet. What does he think--he, who so enthusiastically worked for the kindergartens and the nurseries, in the interest of his own children and the children of the factory workers--what does he think when he sees that some of these institutions are no longer used for their intended purpose? Perhaps he still attends the communist Saturday. But not enthusiastically.

#### They Should Not Feel That It Is "Must Do"

I have heard scores of people exclaim, people who felt that these things were not thought out well enough. Advance calculations shouldn't be that far off--how many children will there be, say, in ten years--do we really need that many kindergartens, nurseries and social establishments? And then they continue in a resigned fashion. If something would have to be built through social work today, no one would volunteer--certainly they would not, because they see what happened to the fruit of their labor. Apparently this too explains that although a large number of workers show up for communist shifts, they are just barely there, and return to their homes as soon as possible. To describe this situation was unnecessary, of course. Everyone knows. Considering my own experiences only, these are the days when it is advisable for reporters to start out early if they want to find someone at the workplace. One can't accomplish much by ten or eleven o'clock, by then most people have dispersed, they are on their way home.

Accordingly, the communist Saturday is no longer what it used to be. It is not pleasant to say such things of course, and it is even less pleasant to write a statement like this. But the mere fact of maintaining silence on this issue will not change the communist Saturday to the way it used to be. To the contrary. (To avoid misunderstanding I must add that our subject does not pertain to Saturday shifts for which workers are paid their regular wages, such as make-up shifts for January shut-downs, or those organized for an economic purpose, like in the days of "work campaigns". The concept of communist Saturdays pertains strictly to shifts during which social work is to be performed.)

Insofar as the designation of purpose is concerned, in most instances the ideas do not originate from workers. They appear to be automatic. In many factories two slogans seem like a perennial refrain: let's support the retirees, and let's provide apartments for the young. What happens if someone wants to see for whom he prepared the apartment? Was it someone who quit the factory as soon as he received the apartment, or was it someone else? What if someone finds it ridiculous, senseless and somewhat humiliating if the result of his "must work" is given away as a prize in a drawing, or is used for the production of a program for his entertainment? Let's suppose: what happens, if from the proceeds of his work he would want to buy an ambulance for the rescue squad of the factory he is working for, to replace those old ones that shake the soul out of healthy people, let alone the sick, or those who barely hang on to life? Because this would make sense. There are many accidents in the factory, and he, as well as his fellow workers frequently have accidents. What if he wants to find out where the money goes, and once he found out, he wants to exercise control?

Let me quote from what a Budapest worker from a large factory told me. His words reflect today's untenable situation more clearly than anything else.

#### If Only They Could Be Involved

"As usual, in this instance too we were informed of the purpose for which the income produced by the communist Saturday will be spent, only after the fact. Although, frankly, I really can't tell whether the entire value of production, or only our surrendered wages are given to charity. Most certainly, it is a good idea to support the aged--we would help them too, but not in this vast abstract fashion, one that appears blurred to us. Generally speaking, we would help retirees as such, but if indeed they distribute the whole amount, how much does each retiree receive? Five hundred forints? A thousand forints? How long does that last? I would like to help the old lady next door, I would like to help the colleagues who retired from this factory, I would like to help those whom I know well, or at least whom I heard of. Rendering help of this nature would make us feel good, and especially if we could see that those we helped received a substantial amount indeed. The way it goes however, one has absolutely no such feeling, one cannot say that well, it was worthwhile. The money disintegrates: a little bit of money for retirees, something for apartments, a little for programs, and who knows for what other purpose. And we cannot trace the money, we cannot see where the income goes, we cannot see the person who is being helped, we cannot see how the money was used. I wouldn't say that the money is being misspent, nevertheless the idea crosses one's mind that money earned easily is spent easily ... Simply put: sometimes we feel--and I repeat, we don't know because we cannot know, we just feel--that on occasion the enterprise spends the money for its own purposes, that we are working to increase enterprise earnings. We have no say in this matter, if we had a say, these ideas would not occur to us. If only we could be involved!"

Actually, the trouble is not with the purpose, it is with the method by which the purposes are designated. In places where political work is weak, people do not feel these purposes as their own, and probably there are some severe problems with local democratic public life also. It is obvious that all of this should be of concern to the local Party and to social organizations. But



this concern should not be dealt with by using the old approach--an approach that has been alienated from the workers and is devoid of common merits attached to democratic elements. After all, even the ideas should be coming from the grass roots, that's where it all should begin if they really want to bring closer the goals to the people. Things will not work without such an approach. In cases like this, decisions should not be reached way above the workers' heads--decisions as to what, when and for what purpose they should do certain things--degrading the workers' role into a ho-hum execution of tasks.

What could we do? To resolve this issue does not require great talent. Instead of demanding the workers' enthusiasm of heroic eras of the past, thus forcing them into an old rut to which they have been overly accustomed to, it is the communist shift that should be adjusted to conform with today's, in many respects changed world. God forgive! We should ask those most directly affected, whether they want to work on a free Saturday, and if they do, for what purpose. Let them decide!

12995

CSO: 2500/318

## ECONOMIC 'ADAPTABILITY' URGED

Budapest HETI VILAGGAZDASAG in Hungarian 28 Mar 87 pp 4-5

[Article by Andras Inotai: "Debate on Adaptability: Coerced Quitting"]

[Text] During the past several months there has been an increasing interest in studies and in the results of scientific examinations which remind us of the Hungarian economy's lag behind the global economy. Following a few years of endeavours, which on the surface may be viewed as successful endeavours, the number of signs that suggest that the Hungarian economy is exhausted are on the increase. Parallel with this recognition our interest in economic "prescriptions for success" beyond our borders are intensifying. But what kind of foreign economic model should we adopt in order to improve our affairs in Hungary? Or could it be that our situation is so firmly set that it is not worth looking abroad, and all we can do is implement strategic changes that became necessary by virtue of our economic policies? The author intends this article to spark debate, and invites comments. He concludes by making a case for the need for action, while recognizing that viewpoints are not unanimous regarding several issues.

What should we do in our present difficult economic situation? Those who expect a miracle from following some foreign model claim that changes in the global economy did not affect every country unfavorably. Several countries less developed than Hungary, which carry little weight in the global economy and have modest domestic resources, were able to strengthen their international position, to accelerate their economic growth, and to achieve spectacular heights in technological development. In the footsteps of Japan's earlier rise, the south-east Asian region was able to advance in spite of significant debts. Instead of adopting a passive mode of crisis management by aiming at debt reductions, they established the opportunity for evolution by increasing their competitive capacity. Their economic policies are strictly export-, and consequently efficiency-oriented. Their infrastructure, including their

financial and intellectual infrastructure has been greatly expanded. All this contributes to their competitive capacity. They succeeded in staying on a growth course, in a manner that they can take part in the integration of production, transportation, research and development that is evolving on a global scale.

The countries of West Europe, and primarily of Southern Europe provide a different lesson. Their belated adaptation to global conditions, an adaptation that gained speed in recent years, evolved along with a number of socio-economic tensions. But these societies proved that they can coexist with these centers of tension.

Representatives of a different school of thought emphasize the fatalistic nature of Hungarian history. According to them, anything that happens in the global economy is unfavorable to Hungary, be that in the form of lower or higher oil prices, or in the context of dynamically expanding or shrinking world trade. We are poor in virtually every respect, our resources are insufficient to bring about great changes. World markets continually depreciate the work of Hungarians, unexpected and unforeseen developments nullify our perceptions. And last but not least, the preservation of socialist achievements and values precludes the use of adaptation mechanisms that proved to be successful elsewhere.

And then there are others who are incapable of surrendering their illusions nurtured through several decades. They trust that things will get better by themselves. Things will get better either because we are at the end of the tunnel (but which end?), or because we have infallible programs for dynamizing and breaking through. They argue by saying that the global economy is experiencing a severe crisis--national economies admired not too long ago are on the verge of collapse. Compared to these, Hungary is an island of stability, and compared to the condition of the immediate European socialist environment, we have nothing to be ashamed of.

Whose view should we accept? There can hardly be a question about the fact that in the age of a technological revolution, at today's level of global economic integration, the guiding light for the open Hungarian external economy (or the economy that should be opened) must be the changed fabric of the global economy. Economies blessed with far fewer natural resources than Hungary were able to negotiate the not-too-low barriers, just as some other economies did, when they entered world trade in a more aggressive manner than Hungary. Their exports were not thrown back necessarily by the reduction in demand experienced between 1980 and 1983. Hungarian losses related to exchange rate deteriorations are indeed extraordinarily great. But other countries with similar production and export structures would not be better off either. Not to mention the fact that during the two decades preceding the 1973 oil explosion, our gains from the then prevailing exchange rate situation was twice as large than the losses we experienced between 1973 and 1983. Who has ever asked how we utilized those gains? How can one explain that while world trade has been vigorous since 1984, Hungarian exports not only fail to achieve the average but are decisively on the decline? And to what factor can



it be attributed that while world markets in the fields of electronics, instrumentation, electrical machinery, telecommunications products and services have persistently expanded during the eighties, and while this expansion provides a multi-billion dollar export opportunity for several countries that are hardly more developed than Hungary, Hungary has not even reached the threshold?

It is unlikely that the outright adoption of any foreign model, without change, would help our situation. Economies capable of more successful adaptation constitute a one-of-a-kind comparative base, a yardstick, on the basis of which value judgments can be made, and strategic economic goals can be defined. But the question of how to keep in step with the methods and tools of international development must be discovered by each country's society on its own, through its own "sweat". I wish to emphasize that as a matter of strategic goal, keeping in step with the developed world, or, at the minimum, forestalling our becoming peripheral, of being squeezed out, are not issues related to the selection of models. These are the only rational alternatives for development, both from a national and from a socialist viewpoint.

By now it is clear that in places where the technological-structural revolution took hold, the change was accompanied by pronounced changes in value systems. It increased the adaptability of the respective economies, increased creativity as well as preparedness to take risks--this being inseparable from creativity. Individual initiative is being appreciated more than before, and also the corresponding transmitting agent: the chain of grass roots social development. Differentiation, the distribution of the income produced according to work performed, and according to accomplishments recognized as such by the marketplace, has increased. The selective mechanism of the economy increasingly prevails. Along with a rapidly increasing number of new enterprises, the number of bankrupt, closed down or forcibly restructured firms has also increased. Contributions to technology, but even more so, the social, educational and human ripple effects of a technical culture that is based on electronics, made indispensable the openness of national economies, as well as of societies that embody these economies.

During the past several decades the traditional elements of economic stability were characteristic primarily of European socialist nations. These elements include: production structures, prices, work places, enterprises and market formations. On a global scale, however, these elements enjoy reduced significance, and this loss of value had a special impact on the group of countries that adhered to traditional economic perceptions. The key question then is: how could these nations, among them Hungary, adapt to the global economic situation, one that establishes new requirements, and demands flexible reactions? The starting point should be the basic situation which appears to be undebatable:

-- present Hungarian society (and for that matter, its broader, East European environment) is unable to handle and tolerate the consequences of falling behind and of becoming marginal;

-- catching up requires a basic overture, not only in international trade, but in all areas that favorably influence the nation's international competitive posture, starting from the dissolution of monopolistic situations, through the reevaluation of the state's role, all the way to achieving openness in our society as a whole;

-- an appropriate strategy for catching up can succeed only if we can manage to transform within a relatively short period of time those willingly or unwillingly, nevertheless repeatedly, reproduced competitive disadvantages which may be characterized most concisely by the false, distorted, and ultimately pseudo-humanistic system of values. At the same time we must make the value system of international competition prevail.

All this suggests a number of conclusions which by far exceed the sphere of economics. In my judgment, a change in economic strategy cannot take place without a redefinition of the traditional perception of economic security, and of the related system of actions!

The global economy no longer attributes great value to the security of supplies and production. As a fundamental economic goal, the secure supply of raw materials and of energy resources--while these are becoming increasingly expensive--hinders production for exports and the evolution of an increasingly competitive posture because of the inappropriate distribution of resources. It continues to perpetuate surviving, outdated energy-demanding structures. Security in production--which manifests itself in state investment subsidies and in ever-increasing state support, as well as in massive market protection and in the maintenance of uncompetitive enterprises--draws increasingly larger disadvantages. In the final analysis it counters the purposes of economic security. Economic security can be the hoped-for result of an export-oriented developmental policy, since it is that kind of policy that produces an exportable merchandise base, one that produces sufficient value to offset the value of imported products.

The decisive criteria for international competitiveness are improved quality and reduced costs, rather than increased quantities. Since the Hungarian economic structure has changed little during the past years, supplemental investment needs, capital, energy, raw material and mainly imported product needs that would emerge in the event of an increased rate of growth, would hardly improve the efficiency and export capacity of the economy. An increased growth rate would encourage the survival of the old structure, while problems in foreign trade would become more acute. In an export-oriented economic structure these needs would occur in the form of different quantities, of higher sales prices and of more efficient energy consumption.

The success of the structural change may be based on actual changes in investment policies and in foreign trade, changes that are strongly directed and encouraged by the state. Among investments, the processing industry, and infrastructural changes aimed at the general improvement of the competitive posture should enjoy top priority. So far as foreign trade is concerned, a reduction in--or possibly the abolition of--import duties, as imports relate

to exports, should be considered as important, and so should credit at preferred terms to stimulate exports, the exporter's authority to retain a given part of the foreign exchange that has been materialized, and the destruction of barriers that stand in the way of importing modern technology.

The state should preferably avoid direct interference with the activities of enterprises by defining specific requirements, or by salvaging troubled enterprises without defining specific requirements. A hoped-for stability within enterprises materializes as a source of increasing instability and inability to compete at the people's economy level. Foreign experiences indicate that the state's role is increasing in the aggressive areas of economic policy. Rather than keeping busy with the redistribution of income, states concentrate on increasing income production, on providing assistance in the adaptation process, on education, specialized training, on the development of the infra-structure and on foreign trade diplomacy, all of which are very important from the viewpoint of international competition.

The common characteristic of all countries that have reached low to medium levels of development is that their endeavour to break out was built on a solid social and ethical value system. This system incorporates the recognition of the need for efficacy, the forestalling of the evolution of a counter-selection mechanism, the conscious development of traditional ties (e.g. family, workplace collectives), the strengthening of a national identity, and the firm rejection of views like "We won't get into trouble if we do nothing."

A general conclusion may be reached: adaptation to the new conditions through traditional means, through the utilization of traditional resources cannot be achieved, or if it can, adaptation will result in an increasing lag. Structural devaluation and the sliding to the periphery of the global economy produces a deterioration in the standard of living in the short run. In the long term it can produce historic disadvantages, which should be all too obvious to East Europe, which has been sitting on the century-old see-saw of catching up and falling behind.

A countless number of exciting issues that have not been resolved in a satisfactory manner emerge in Hungary these days. Is there a chance for the evolution of the new value-producing processes? Is there time left for continuing the step-by-step practice, which, in many respects is unquestionably rational, or do we have to accept the simultaneous introduction of all steps that promise to bring about economic renewal? Even if one cannot control the process and cannot prepare himself in detail for the consequences? What sacrifices does "keeping in step" require, and what is society's level of tolerance? How can the level of tolerance be strengthened? How can the national elements of the value system be mixed for a beneficial purpose with the international components?

The answers to these questions can hardly be postponed much longer.

12995

CS0: 2500/310

## CEAUSESCU'S NATIONAL DAY MESSAGE TO CSSR COUNTERPARTS

AU13I542 Bucharest CINETEIA in Romanian 9 May 87 p 5

[Message sent by Nicolae Ceausescu, RCP secretary general and Romanian president and by Constantin Dascalescu, prime minister of the Romanian Government to Gustav Husak, CSSR president and Lubomir Strougal, CSSR premier, on the 42d anniversary of CSSR national day]

[Text] To Comrade Gustav Husak, CPCZ general secretary and CSSR president and to Comrade Lubomir Strougal, CSSR premier, Prague

Esteemed Comrades,

On behalf of the RCP, the Government of the SR of Romania, the Romanian people, and on our own behalf, we convey cordial congratulations and warm, comradely greetings to you, to the CPCZ, and to the friendly Czechoslovak people on the occasion of the 42d anniversary of the liberation of Czechoslovakia from the fascist oppression.

The liberation of Czechoslovakia -- to which the Romanian Army also made an important contribution -- is an important historical event for the Czechoslovak people, an event which opened the road toward great changes in the life of your people. During the period since the liberation, the working people in your country, under the CPCZ leadership, registered outstanding results in all the fields of socialist construction, achievements which the Romanian people follow with sentiments of great appreciation.

We highly value the solid relations of friendship and cooperation between the RCP and the CPCZ and between the SR of Romania and the Czechoslovak Socialist Republic and we express our belief that, acting together in the spirit of the decisions and agreements reached at the highest level and in accordance with the treaty of friendship, cooperation, and mutual assistance, the Romanian-Czechoslovak cooperation will increase continuously, for the well-being of our peoples and in the interest of the general cause of socialism, peace, progress, and cooperation throughout the world.

On the anniversary of the national day of the friendly Czechoslovakia, we convey to you, esteemed comrades, to the Communists, and to all the



Czechoslovak people our wishes for newer and more important successes in your activity devoted to the implementation of the 17th CPCZ Congress decisions and to the flourishing and prosperity of the Czechoslovak Socialist Republic.

Nicolae Ceausescu, RCP secretary general and president of the SR of Romania.

Constantin Dascalescu, prime minister of the Government of the SR of Romania.

/12624

CSO: 2020/102

## CSSR EMBASSY PRESS CONFERENCE MARKS NATIONAL DAY

AU041801 Bucharest AGERPRES in English 1726 GMT 4 May 87

[Text] Bucharest, AGERPRES, 4 May, 1987--A press conference was held at the Czechoslovak Embassy in Bucharest, in marking the National Day of the Czechoslovak Socialist Republic -- the 42nd anniversary of Czechoslovakia's liberation from fascist occupation.

Ambassador Jan Papp spoke about the historical significance of the celebrated event, emphasizing the Czechoslovak people's struggle against the fascism, the decisive contribution of the Soviet and Romanian soldiers to Czechoslovakia's liberation.

The speaker emphasized extensively the successes scored under the leadership of the CP of Czechoslovakia on the path to socialist construction, the changes wrought in the country's socio-economic life, the efforts made by the working people for the attainment of the important targets set by the 17th Congress of the Communist Party of Czechoslovakia, for speeding up the country's economic development, for continuously raising the people's living standard.

The ambassador also highlighted the Czechoslovak people's wish for peace, its struggle, along with all peace-loving forces in the world, for halting the arms race and for disarmament, for the establishment of a climate of understanding among states.

Evoking the good relations of traditional friendship established between the RCP and CPC [Czechoslovak Communist Party], between the two countries and peoples, the speaker highlighted the decisive role played in boosting these relations by the friendly meetings and talks between Nicolae Ceausescu, general secretary of the RCP, president of Romania, and Gustav Husak, general secretary of the CC of the CPC, president of the Czechoslovak Socialist Republic.

On the same occasion a news conference was held at that country's general consulate in Constanta.

/21624

CSO: 2020/120

## DOBRESCU RECEIVES SRV TV CHIEF PHAM THE DUYET

AUI41853 Bucharest AGERPRES in English 1727 GMT 14 May 87

[Text] Bucharest AGERPRES 14 May 1987--Miu Dobrescu, alternate member of the Executive Political Committee of the CC of the RCP, chairman of the Central Council of the General Trade Union Confederation [GURTU] of Romania, received Pham The Duyet, secretary of the CC of the Communist Party of Vietnam, president of Vietnam Federation of Trade Unions, in Romania to attend the meeting of secretaries for organizational questions of the Central Committees of communist and worker parties of socialist countries.

Opinions and information were exchanged on the achievements of the working people in Romania and Vietnam in the economic and social development of their countries and on trade unions' tasks and activity.

Both sides expressed satisfaction for the good relations existing between the GURTU and the Vietnam Federation of Trade Unions, as well as their determination to further develop them in the spirit of the ties of friendship established between the two parties, countries and peoples, of the top-level talks and understandings.

It was stressed that under the current particularly serious and complex international circumstances the major tasks of all trade union organizations should be the strengthening of the unity of action of the international trade-union movement and of all working people in the fight for disarmament, nuclear disarmament in the first place, for the guaranteeing of peoples' foremost right to peace, life, to independence and freedom.

/12624

CSO: 2020/102



## CEAUSESCU RECEIVES GABONESE ENVOY'S CREDENTIALS

AU081745 Bucharest AGERPRES in English 1734 GMT 8 May 87

[Text] Bucharest AGERPRES, 8 May 1987--Friday, May 8, President Nicolae Ceausescu of Romania received Raphael Nkassa-N'zoghho, who presented his credentials as ambassador of the Gabonese Republic to Romania.

Handing over the credentials, the Gabonese ambassador conveyed President Nicolae Ceausescu friendly greetings and wishes of progress and prosperity to the Romanian people from the president of the Gabonese Democratic Party, El-Hadj Omar Bongo.

In Gabonese ambassador's address stress is laid on the growing course of the relations between Romania and Gabon which have grown stronger after mutual summit visits. Emphasis is also placed on the fine collaboration between the two countries internationally, in the struggle for peace, understanding and cooperation among all world nations.

Receiving the credentials, President Nicolae Ceausescu addressed best wishes of good health and personal happiness to the Gabonese head of state, of peace, progress and prosperity to the friendly Gabonese people.

Stress is laid in the Romanian president's address on the fine links of friendship and collaboration that were established and developed between Romania and Gabon, between the two parties and peoples, in the spirit of the talks and agreements reached during summits in Bucharest and Libreville. Possibilities are shown to exist for a more powerful development of bilateral relations, in trade exchanges and economic cooperation in particular, in the interests of both peoples, of the cause of peace and understanding the world over. It is stressed in the address that in the current conditions it is more necessary than ever before for all countries to collaborate ever more closely to halt the arms race and pass on to concrete disarmament measures, nuclear first and foremost, to safeguard all people's peace and tranquility, to remove the danger of a new world war that would inevitably turn into a nuclear disaster. Romania's policy of wide collaboration with all world states advocated and advocates the solidarity with the African peoples' struggle for economic and social progress, for their free and self-reliant development, supports the Namibian people's struggle, led by SWAPO [South-West African People's Organization], for Namibia's independence, condemns in all firmness the racist, apartheid and racial discrimination policies and the aggressive acts of South Africa's minority government against the independent African states.

/12624

CSO: 2020/102

## CEAUSESCU MEETS ARGES COUNTY RCP BUREAU MEMBERS

AU142023 Bucharest ACERPRES in English 1920 GMT 14 May 87

[Text] Bucharest ACERPRES, 14 May 1987--At the end of his first-day working visit to enterprises in Arges county, the general secretary of the Romanian Communist Party, president of Romania, Nicolae Ceausescu, and Mme Elena Ceausescu met on Thursday evening with members of the bureau of the Arges County RCP Committee.

During the interview, the analysis started in the afternoon in industrial and farming units continued, with the specific aspects of the economic activity examined on the spot, the achievements scored by the Arges working people and their plan tasks this year and in the 1986-1990 interval as a basis.

President Nicolae Ceausescu, referring to the results scored this year by the Arges industry and agriculture, called attention to the fact that they were not up to the possibilities, to the modern technological equipment available to the county's economy. The party general secretary demanded the county party organization to take firm measures so as to make up for the arrears and integrally fulfill the 1987 and the five-year plan. Assessing that the Arges County had every condition to achieve superior plant and animal outputs, Nicolae Ceausescu requested that higher sense of responsibility be shown in all fields of activity, plan discipline be strictly observed, all resources at the county's disposal be highly efficiently used and work be raised on to higher levels of quality and efficiency.

The party general secretary insisted on the obligativity to strictly observe legal provisions regarding the establishment of the boundaries of towns and rural localities, their planning so as to reduce built-up areas and the land be used to the full.

Nicolae Ceausescu also referred to the need to improve the style and methods of work of the county party committee and bureau, with emphasis on the major role of party bodies and organizations in organizing and running activities, in solving all the problems related to the fulfilment of plant tasks, the targets of the current five-year plan and the Thirteenth Congress resolutions.

The RCP general secretary expressed his conviction that the county party organization had the necessary power to raise the Arges County's work on to a higher qualitative level, as it held a great share in the country's economy.

Nicolae Ceausescu showed that much has been earmarked for the economic progress of the county, which is today among the first four counties. These efforts, he pointed out, require each working man, each communist, the collectivities and party organizations to score achievements on a par with the conditions created.

## BRIEFS

**CEAUSESCU RECEIVES MAURITANIA'S FISHING MINISTER**--Bucharest AGERPRES 29 Apr 1987--In the afternoon of April 29 Romania's President Nicolae Ceausescu received the minister of fisheries and marine economy for Mauritania, Sidi Ould Sheykh Abdallahi, now on a visit to Romania. During the interview reference was made to the friendly and cooperative ties developing between Romania and Mauritania with emphasis on the deciding contribution of summit dialogue to further expanding and diversifying them. The possibilities were underscored to boost Romanian-Mauritanian links in the economy, technology, science and other spheres. Questions were approached more particularly with regard to Romanian-Mauritanian collaboration in fishing. The interview occasioned an exchange of messages between President Nicolae Ceausescu and the Mauritanian head of state, Col. Maawiya Ould Sid'ahmed Taya. [Text] [Bucharest AGERPRES in English 1853 GMT 29 Apr 87 AU] /12624

**RCP'S CONSTANTIN MEETS GREEK FLORAKIS**--Athens, AGERPRES, 17, May 1987--An exchange of messages between Nicolae Ceausescu and Kharilaos Florakis was occasioned by the call paid on the general secretary of the CC of the Communist Party of Greece, by Nicolae Constantin, member of the Executive Political Committee of the CC of the RCP, chairman of the Central Party Collegium, RCP representative to the 12th Congress of the CP of Greece. During the talk of the occasion, they emphasized with satisfaction the good relations of friendship and collaboration between the two parties and countries and expressed the mutual wish to further develop them. [Text] [Bucharest AGERPRES in English 1620 GMT 17 May 87 AU] /12624

**SYRIAN PRESIDENT THANKS CEAUSESCU**--To Mr Nicolae Ceausescu, president of the Socialist Republic of Romania: On behalf of the Syrian Arab people and on my own behalf, I want to express most sincere thanks for your kind wishes on our national day. In turn, I am convinced that the relations of friendship and cooperation between our countries will continue to develop and strengthen to the benefit of the two peoples and in the interest of peace, justice, and international security. Please accept best wishes for good health and personal happiness, and wishes for prosperity to the friendly Romanian people. Hafiz al-Asad. [Text] [Bucharest SCINTEIA in Romanian 15 May 87 p 5 AU] /12624

AL-ASAD THANKS CEAUSESCU FOR MESSAGE--To Comrade Nicolae Ceausescu, RCP secretary general. Dear Comrade: I want to express sincere thanks on behalf of the leadership of the Syrian Arab Socialist Ba'th Party and on my own behalf, for your congratulations on the 40th anniversary of the foundation of the Arab Socialist Ba'th Party. I want to take this opportunity to express my wish for continued relations of cooperation between our parties and countries and to convey best wishes to you, Dear Comrade, to the RCP Central Committee, and to the friendly Romanian people. Hafiz al-Asad. [Text] [Bucharest SCINTEIA in Romanian 15 May 87 p 5 AU] /12624

ILIE CISU APPOINTED AMBASSADOR--By presidential decree, Comrade Ilie Cisu was appointed ambassador extraordinary and plenipotentiary of the SR of Romania to the Islamic Republic of Iran, to replace Comrade Nicolae Stefan, who was recalled home. [Text] [Bucharest SCINTEIA in Romanian 8 May 87 p 5 AU] /12624

OFFICIALS GREET CSSR COUNTERPARTS--Comrades Nicolae Giosan, chairman of the Grand National Assembly, Ioan Totu, minister of foreign affairs, and Colonel-General Vasile Milea, minister of national defense, sent congratulatory cables to their counterparts in the Czechoslovak Socialist Republic on the occasion of the 42d anniversary of Czechoslovakia's liberation from fascist domination. Likewise, congratulatory cables were sent by the National Council of the Socialist Democracy and Unity Front, by the Central Council of the General Union of the Romanian Trade Unions, the Central Committee of the Union of Communist Youth, and by other central institutions and mass and civic organizations to similar organizations in the Czechoslovak Socialist Republic. [Text] [Bucharest SCINTEIA in Romanian 9 May 87 p 5 AU] /12624

CEAUSESCU CONDOLENCES TO JARUZELSKI--To Comrade Wojciech Jaruzelski, first secretary of the PZPR Central Committee and president of the State Council of the Polish People's Republic, Warsaw: In Connection with the serious plane accident causing the loss of numerous human lives, on behalf of the RCP Central Committee, the State council, government, and on my own behalf, I want to extend sincere condolences to the PZPR Central Committee, the State Council of the Polish People's Republic, and to you personally, as well as our profound compassion to the bereaved families. Nicolae Ceausescu, RCP secretary general and president of the Socialist Republic of Romania. [Text] [Bucharest SCINTEIA in Romanian 12 May 87 p 5 AU] /12624

KIM IL-SONG THANKS CEAUSESCU--To Comrade Nicolae Ceausescu, RCP secretary general and president of the SR of Romania: I express vivid thanks for the warm greetings and wishes you so kindly conveyed to me, on behalf of the RCP Central Committee, the Government of the SR of Romania, the Romanian people, and on your own behalf, on my 75th birthday; I also express thanks for the expression of high appreciation for and support with the cause of our party and people. I believe that our close ties of friendship and the excellent relations of friendship and cooperation between our parties, countries, and peoples will continue to strengthen and develop in the future and I convey to you sincere wishes for ever greater successes in your activity devoted to peace and to the triumph of the cause of socialism. Kim-Il-song, general secretary of the Workers Party of Korea Central Committee and DPRK president. [Text] [Bucharest SCINTEIA in Romanian 20 May 87 p 5 AU] /12624



CEAUSESCU GREETES GREEK CP LEADER--To Comrade Kharilaos Florakis, general secretary of the Communist Party of Greece Central Committee: On the occasion of your reelection to the office of general secretary of the Communist Party of Greece Central Committee, I convey to you warm greetings and best wishes for success in fulfilling the great responsibility entrusted to you by the party. I express my belief that the relations of friendship, cooperation, and solidarity between our parties will continue to develop for the benefit of the Romanian and the Hellenic people and in the interest of the cause of peace and socialism and of unity and cooperation among all anti-imperialist, progressive, and democratic forces. Nicolae Ceausescu, RCP secretary general. [Text] [Bucharest SCINTEIA in Romanian 19 May 87 p 3 AU] /12624

ECONOMIC CONTRACT SIGNED--Bucharest, AGERPRES, 21 May 1987--A long-term contract between Romanian and Yugoslav foreign trade enterprises on metal products was signed in Bucharest. On the occasion, Boro Denkov, ambassador of the SPR of Yugoslavia in Bucharest, gave a cocktail party on May 21. Executives of the Ministry of the Metal Industry, of the Ministry of Foreign Trade and International Economic Cooperation, other officials attended. [Text] [Bucharest AGERPRES in English 1655 GMT 21 May 87 AU] /12624

CEAUSESCU VISITS ECONOMIC UNITS--Bucharest, AGERPRES, 14 May 1987--RCP General Secretary, Romania's President Nicolae Ceausescu and Mrs Elena Ceausescu started a working visit to industrial and farming units in Arges County on May 14. The dialogue with working people, managerial staff and experts of the visited units, with representatives of the local party and state bodies focuses on an analysis of the achievements scored in socioeconomic development, in the growth and modernization of industrial production as well as on the ways and means of attaining the targets of the new agrarian revolution in that part of the country. This afternoon President Nicolae Ceausescu visited the Leordeni state farming enterprise, a representative unit of the Arges County agriculture, and the petrochemical combine of Pitesti, one of the largest units of the Romanian relevant industry. At the end of his first-day working visit, the party general secretary met with members of the bureau of the Arges County RCP committee. [Text] [Bucharest AGERPRES in English 1910 GMT 14 May AU] /12624

CEAUSESCU CONCLUDES VISIT--Bucharest, AGERPRES, 15 May 1987--RCP General Secretary and Romania's President Nicolae Ceausescu concluded the working visit he paid together with Mrs Elena Ceausescu to Arges County on May 14 and 15. This morning the RCP and Romanian state leader met with working collectives of representative units of the county's industry: the "Aro" four-wheel-drive car manufacturing enterprise of Cimpulung Muscel, the products of which are exported to almost one hundred countries on all meridians, and the automobile manufacturing enterprise of Pitesti, another standard unit of the Romanian machine building industry. Aspects were examined of the fulfillment in the best conditions of the plan tasks set for this year and for the entire 1986-1990 five-year interval, more particularly with physical production and the production meant for export, the permanent improvement of the performances and competitiveness of the Romanian terrain and town cars, of the entire activity. Questions related to the working and living conditions of the workers in the visited units were also approached. At the end of the visit President Nicolae Ceausescu attended a big civic rally in Pitesti Municipality during which he made a speech. [Text] [Bucharest AGERPRES in English 1536 GMT 15 May 87 QU] /12624



## NEW CREDIT BANK'S INDEPENDENCE, PROSPECTS DISCUSSED

Budapest FIGYELO in Hungarian 16 Apr 87 pp 1, 23

[Interview with Sandor Demjan, president of the Hungarian Credit Bank, Inc. by correspondent Katalin T. Forgacs: "Fruit-Bearing Trees Must Be Cared For"]

[Text] Ever since its establishment, the Hungarian Credit Bank, Inc. [MHB] has been unique in the sense that the state does not have a majority vote regarding the bank's affairs. Pursuant to commercial law, a stockholder of a corporation may exercise voting privileges up to a maximum of 2000 shares. In MHB's case the enterprises over-subscribed the bank's stock. Accordingly, even though the state holds a 6.9 billion share of the bank's 9 billion capital, the state does not have a majority vote. In the MHB, the state is represented by the Ministry of Finance. We asked MHB president Sandor Demjan whether there were instances in the bank's short existence when this restrictive provision was utilized.

[Answer] There were. Most recently we were able to argue in the VAEV [Veszprem State Construction Company] case that the bank's charter authorizes us to pursue two activities: first, to allocate our money in potentially dynamic growth areas so as to produce profits, and second, to pay dividends to stockholders. As an aside I must mention this: in the face of various attempts of outside interference, our bank has enjoyed the consistent support of the Central Committee and of the Ministry of Finance. Accordingly our perception by which we are acting in the interest of stockholders--the spirit of responsibility we hold for the security of stockholders' investments--has prevailed when we withdrew funds from enterprises similar to VAEV. No one can expect a banking corporation that has 340 stockholders to use the stockholders' money for the support of enterprises that are not viable. This too shows the effectiveness of the corporate form of organization. I hope that this effectiveness may be increased in the future, if, with the involvement of some intermediate legal entity, individual savings would be invested in stocks also. There is an urgent need to sort out the ideological and legal concepts that attend the corporate form of business as well as the issues related to individual savings. This is indispensable from the viewpoint of creating public confidence also.

Reverting to VAEV I must point out that the case involves the protection of interests that transcends those of the stockholders. What happens if we leave our money with enterprises that loose money? There were 300 million forints at stake in VAEV's case. Had we left the money there, we could not have provided credit to dozens of other firms, and these may include some in which a fraction of the 300 million forints could restore financial viability. In this sense then, having withdrawn the capital from VAEV, and having made a potential sacrifice of 2300 jobs at VAEV, we rescued a much larger number of jobs elsewhere.

[Question] And yet it appears to outsiders that somehow you were reluctant to embark on the liquidation proceeding ...

[Answer] ... that's out of question. We accept this crown of thorns. We terminated the loan already in January. But to declare lack of credit-worthiness is the function of the board of directors. In the absence of a board decision it is our duty to declare all of our clients as having excellent credit ratings--at least outwardly. Bank secrecy obliges us to do so, and only the board may relieve us from this obligation. This is why we did not comment on the VAEV issue. And we did not comment because quite naturally, prior to proposing the initiation of a liquidation proceeding, we considered a number of alternatives. After all, liquidation carries a high price tag that is to be paid for by society. But considering all this, it appears that this year we will have to take similar action with respect to another eight to ten enterprises. One must recognize, however, that steps aimed at structural transformation do result in temporary losses.

[Question] What authority do enterprise stockholders have over the bank's business policies? Enterprises hold 2.8 billion forints worth of stock out of the total capital of 9 billion forints--the TVK [Tisza Chemical Combine] alone subscribed to 400 million.

[Answer] The 340 stockholders definitely have authority over the business policies of the bank. It is the board that deals with operational matters between stockholders meetings, and the board includes representatives of the largest stockholders and of the ministries. Individual issues are decided by majority vote. And because with respect to important issues we would be placing at risk the interests of 340 stockholders, the corporate form of organization excludes the possibility of pseudo-humanitarian decisions. Members of the board are criminally liable for the protection of the majority interest, and for the application of appropriate business policies. The VAEV case involved such a decision. If the board's performance is inadequate, if there are insufficient dividends, the stockholders will relieve the board of its duties at the annual stockholders meeting and elect a new board. This 21 member supervisory body is composed of the bank's shareholders.

[Question] Have you ever thought of establishing a separate organization for the management of enterprises that experience critical conditions? Perhaps something similar to the Austrian solution--ownership of a near-bankrupt enterprise would be temporarily transferred, and for the duration of the crisis the new manager would have full authority ...

[Answer] The MHB is considering the possibility of establishing several independent organizations. We are planning to establish an independent investment council and an independent body for the organization of joint enterprises. We will not undertake independent bankruptcy management, however. This is not a banking function and there are a lot of unanswered questions regarding bankrupt enterprises. One question is, for instance, whether the bank would be obligated to provide advance credit to cover wages, considering the fact that liquidation proceedings may take as long as six months. And if so, how would the bank recover a demand of this nature? On the other hand we plan to establish a crisis staff within the bank to assist the management of enterprises that experience difficulties. We also proposed an idea that was favorably received by the authorities. A certain part of the bank's contingency funds could be freed to assist the recovery of enterprises that experience critical conditions. Out of these funds we could offer and pay a significant target premium to successful managers capable of bringing about recovery in troubled enterprises. Liquidation could be frequently avoided--and this would be the cheaper solution--but the feasibility of this solution hinges on our ability to find crisis managers who would work for three or four-times larger salaries than the usual managerial salaries. Of course their staff too would receive larger salaries. This would be the risk they take. But in today's Hungary you cannot find managers who would leave well-managed enterprises in order to establish order in a critical enterprise. It does not pay. Premiums in a well-managed enterprise may be as high as 100 percent of the salaries. Why should someone accept the task of putting into order the affairs of a badly managed enterprise?

And with this I do not intend to say that there are no enterprises for which indeed liquidation presents the only solution. In VAEV's case we had a warning signal: not even VAEV's immediate surroundings, the county of its domicile placed orders with that enterprise. There was a lack of confidence even on their part. I should note here, however, that in contrast to VAEV, the construction enterprise of the Veszprem council is not a loss operation. Loss operations like VAEV must have their money taken away. Continued compensation for poverty will never lead this country out of its present predicament--it will submerge further. It is the fruit-bearing tree that must be cared for.

In every enterprise--even if they do not have long-term concerns--the crisis atmosphere must be consciously instilled and strengthened. In given situations the entire nation must be made aware of the fact that we are constantly competing with the rest of the world. There is no security in competition, there is no pause to relax. A certain conscious awareness of danger, of potential crisis should have been developed a long time ago, otherwise a potential sudden crisis produces schizophrenia. People must feel the danger of situations in order to survive, in order to remain part of competition.

[Question] Would it not endanger the banks' business image if the authorities would attempt to draw banks into performing part of the work of governmental regulatory and economic management bodies?



[Answer] Look, when I accepted this task I assessed the prospects of a new banking firm like this one. The process of enterprise independence, the broadening of democracy in Hungary takes place in a manner so that when the old methods of funding are exhausted, independence is being transferred to new organizations, such as enterprise councils and banks. This process takes place under circumstances in which the new organizations do not have funds either, but the responsibility of the new organizations emerges in a rather pronounced way. This situation is similar: all that could not be accomplished for decades by the monopolistic banking system is now being accomplished by commercial banks. And they are accomplishing these things in as short a time as possible, under circumstances in which 90 percent of their loan placement possibilities are pre-determined. And with this I will say that we did not accept an impossible task. All we need is time to allow us to secure sufficient resources. Once we have access to those resources we can begin to invigorate the economy with the proper reallocation of monetary instruments. We could be way ahead if banking reform had taken place earlier. Accordingly, the present difficulties do not prove correct those who opposed banking reform, those who through actions, if not through words continue to hinder banking reform. It would be nice if, from time to time, politicians would hold such forces accountable. Because without these forces the nation would be ahead by now. In this connection I must say that the time has come to examine the efficiency of offices, rather than enterprises only. Offices too should be held accountable. Together with the liquidation of uneconomical enterprises like VAEV, they should begin to liquidate unnecessary offices that have a retarding effect. This country cannot afford to sustain a tremendously bloated administration like the one we have. Administrative costs place a tremendous burden even on the most competitive enterprises. As a result, these enterprises enter global competition with an inherent disadvantage. The economy will remain non-competitive as long as they fail to adjust the present distorted ratio between productive and non-productive individuals.

[Question] But you know very well that this is a hopeless endeavour. Bureaucratic accomplishments cannot be measured. For this reason bureaucrats are in a better position to protect their own interests.

[Answer] I am not that hopeless. International comparisons show how many individuals perform tasks of identical magnitude within various organizations in Austria and in the Netherlands.

[Question] To this the bureaucrats will respond by saying that the tasks themselves are not identical. After all: there has never been a bureaucracy that endeavoured its own liquidation.

[Answer] That's true. But an authoritarian decision may force them to make personnel reductions. There is no need for new decisions. These kinds of decisions were made already years ago, only their implementation has been delayed. There is no other way out. We must find domestic resources to invigorate the economy. National resources are not being expanded by individual savings withdrawals from the National Savings Bank [OTP] and the re-investment of the same into government bonds. Investment into enterprise bonds do constitute an expansion of resources, nevertheless the greatest potential resource rests with the reduction of the state budget. I can state

this: commercial banks do not compete with each other in creating resources. Our greatest competition is the wasteful state budget sector that is not forced to, or is not fully forced to manage itself efficiently.

In the framework of banking reform so far we have seen the first step only, it concerns the organizational structure. Resources available to the credit sphere have not expanded. Yet this is what is so urgently needed: the change of roles between the credit sphere and the budgetary authority, one that has been urged for so long. It should take place. An overwhelming part of developmental efforts should not be financed out of state resources, instead they should be funded through credits. In addition to that the state budget sector requires the imposition of an actual reduction in consumption. The resources thus freed should be channeled into the economy, with the assistance of commercial banks.

[Question] Regarding the latest National Bank action that reduced the liquidity margin (FIGYELO: 1987 No 12)--by what percent did this action reduce the MHB's opportunity to place short term loans? Is there a way for the accelerated repayment of loans? And does not the business image of banks suffer by virtue of that action?

[Answer] Debates within the profession on this subject have not come to a close, therefore I would find it appropriate to revert to this issue at a later point in time.

I do not argue with the fact that the improvement of the economic balance requires action, and that monetary direction cannot be left out of such actions. One must point out, however, that for years, for decades, financial management was unable to establish an appropriate harmony between production, reserves and credits. Now it is incumbent upon commercial banks to accomplish this within a few months. Accordingly, I agree with more determined efforts to restore financial balance, but I view the methods of implementation as inappropriate.

Sufficient time is needed for the implementation of these actions. The state's retreat from the credit market can only be accomplished gradually, lest we inflict damage upon the economy. The devaluation of the forint and the increase in producer prices in and of themselves are factors that create a demand for credit. I have yet to be persuaded as to how the Central Bank's action will enhance the reduction of the budgetary deficit and the increase of exports. The action does not encourage production. On the contrary. Possible gaps in production will result in increased budgetary deficits, and exports will be reduced.

[Question] Do you agree with the idea of doing away with the mandatory system of replenishing operating fund accounts?

[Answer] I agree with that. This is an action that provides some room for dynamic growth enterprises. We support this action fully, in fact the heads of commercial banks have made an offer to the Minister of Finance. On the strength of their earnings they guaranteed that the action would not result in an additional outflow of wages.



[Question] Does this gesture have a symbolic meaning?

[Answer] It is not a mere symbolic gesture. After all, a rather substantial sum of money is at risk here. Although I do not deny the symbolic significance either. Have you ever seen a bureaucrat who risks his own income for any cause? But we had to take this step. The previous system of replenishment was accompanied by certain tasks related to the authorities, to the 'banking ministry' so to speak, and these tasks were inconsistent with the character of commercial banking.

[Question] It appears that your relationship with the National Bank is not free of controversy. How do you envision your relationships with the other banks and with the National Bank? What would be the role of the Banking Council?

[Answer] The Banking Council has to be a consultative body in which all participants carry equal weight. Should Council members be empowered to vote, the consultative character would be lost, and their decisions would have a mandatory effect. This situation, however, would violate the independence of banks. Therefore it would be appropriate to assign an informational exchange of viewpoints character to the Banking Council. Within that body we may exchange ideas concerning the assessment of the economic situation, the formulation of economic development objectives and related monetary and credit policies, the anticipated conduct of the National Bank, enterprise objectives, market experiences and their relationship to monetary policy, the direction regulations take, the conditions under which banks function, the uniform interpretation of rules, etc. There is a particularly great need for consultative bodies and for professional debates in countries that have single-party systems. There is a need for organizations that are able to make interests prevail. This enables politicians to choose the best alternative from among several alternatives. This puts an end to the dependence of politicians on offices of a monopolistic nature, with respect to professional issues.

In the absence of appropriate consultation and feed-back, even the best decisions become distorted. Such compromises give birth to reversals in spite of reform endeavours. Banking reform was a good decision, because what emanates from commercial banks may produce favorable changes in the conduct of enterprises. And this issue is so fundamental that no room should be allowed for reversals.

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CSO: 2500/317

## TAX REFORM: IMPLICATIONS OF VALUE-ADDED, INCOME TAXES VIEWED

Budapest FIGYELO in Hungarian 16 Apr 87 p 5

[Article by Otto Gado: "The Pros and Cons"]

[Text] It is quite understandable that the tax reform measures being prepared at this time are subjects of great interest as well as of professional debate. Primarily it is the changes and their anticipated effects on enterprises that produce differences in opinion.

Rightfully and with increasing impatience we urge that enterprise profit motive be strengthened, that market forces play an increasing role, that efficiency be improved, and that technological development be accelerated. Tax reform, which serves these purposes is being viewed critically, nevertheless. What are the most frequent objections?

Tax reform critics suggest that today's excessive profit withdrawals and the disproportionate burden on live work and dead work respectively, could be remedied by "old type" measures directed by the authorities--measures gradually implemented in the vertical hierarchy, with producer price regulations in the form of a price list promulgated by the authorities. In this way too, net producer prices could be reduced, and with those reductions the amounts of profits would also be reduced, leaving gross prices at today's levels. The adoption of this method would not require a drastic transformation of enterprise accounting systems.

The present mixed pricing system which contains a number of unregulated prices would not accept centrally directed price regulations implemented gradually through the vertical levels of hierarchy, as embodied in a price list promulgated by the authorities. Even at the time this method would have been feasible, it would have produced unfavorable consequences. Expressed as a percentage of enterprise profits, the total amount of withdrawals varies (the variations depending on the capital investment/wage ratio, on the method of pricing applied, and on current prices). Consequently the variable net price and the invariable gross price could be perceived only within the

framework of some new, highly differentiated withdrawal formula. This, in turn, would run counter to endeavours that aim for uniformity.

Another objection: would not the introduction of the tax create an excessive price increase? This type of sales tax (Footnote) (In the March 3, 1987 edition of VILAGGAZDASAG Ivan Ersek developed an idea by which perhaps the concepts "value increment" or "excess value" would better convey the Western expressions ("valeur ajoutée", "value-added", "Mehrwert") than the term "sales tax". I believe that Ersek's remarks have merit, nevertheless I find that the purpose would be better served by using a neutral expression to designate the new type of tax: "general sales tax" (AFA)) was first introduced in France in 1954, and in its present form in 1968. Since then, in the interest of unifying the various taxation systems, all Common Market countries followed suit. This system of taxation is functioning in Austria, in several South- and Central-American countries, in some Far-Eastern countries, in Israel, and in some African countries, mainly in the former French colonies. At present the system is being introduced in New Zealand, and Japan is making preparations for its introduction. (The system functions in some 40 countries altogether.) In every instance one of the aims was the reallocation of the tax base. In most places the new tax replaced the traditional sales tax paid in every phase of the process, thus creating different levels of tax accumulations--the exact levels depending on the end-product. Given adequate preparatory work, Western European countries did not experience particular difficulties in conjunction with the new system (perhaps the Greek experience we are learning about now is the exception), and the resultant increase in consumer prices was relatively small.

In Hungary the value-added tax takes the place of direct profit taxes and of direct, proportionate taxes on resources. In other words, lessons learned from foreign experiences may be applied in regards to the peculiarities of the system, but the peculiarities of transition require a different approach. There is the question, for example, concerning changes in "starting prices" at the time the system is being introduced. Should they, or should they not be temporarily frozen or be tied to permissions granted by the authorities?

Several individuals raised this issue: do we really need a neutral, nonincentive-type tax? Tax neutrality means that the tax treatment does not differentiate between products and marketing channels, products and services or enterprises, and that excessive taxation on investments would also come to an end.

At the 1969 Congress of the International Monetary Fund in Istanbul a French economist emphasized that his country opted for the value-added tax because of its neutral character. Professor Max Frank of the Université Libre de Bruxelles responded with a question: from the viewpoint of achieving balanced economic growth and at the same time of realizing social justice, is it really desirable to make an endeavour so that the most important means of taxation have a neutral character? In the end the Congress decided that between liberalism and interventionism (these are the expressions of bourgeois economists) one must search for the optimum balance. I believe that if we applied this thesis and this debate to our situation today, we would find that a neutral tax would bring us closer to that sought-after optimum point--after

all the economic management system retains several elements suitable for direction and the exertion of direct influence.

As a result of the changes, enterprises will enjoy a more stimulating economic environment, but at the same time, depending on their achievements, also a more differentiated economic environment. The ratio of expenses (burdens) related to capital investments and live-work utilization will also change fundamentally. Supposedly this change will increase the interest in intensive development.

Some hold the opinion that with the introduction of the new system there will be "run-away" investments, because investments will become less costly. Some Western countries protected themselves against such phenomena by staggering the effective date of investment tax refunds over a period of one to two years. This measure was taken in the interest of maintaining the balance between supply and demand. It may be assumed that this balancing role will be temporarily fulfilled in Hungary by the accumulation tax, but in terms of current cost management the amortization costs of investments realized after tax reform will be lower anyway, mainly in comparison to wage increases resulting from the personal income tax [SzJA]. The re-valuation (devaluation) of existing fixed assets pursuant to some global price index, which would reduce the amortized amounts after such fixed assets, would also represent a solution.

Quite obviously, this issue must be settled, because in the present situation the burdens related to investments, renewals and major repairs differ (in favor of the latter). This then provides an incentive to make small or large repairs on old equipment (or, in part, to "qualify" investments as renewals), rather than to introduce modern technology. I do not believe that the new tax system alone can resolve this problem. Undoubtedly, however, the new system represent a step in the right direction. The introduction of a general sales tax provides an opportunity to realize some methods that stimulate technological development. In general, these methods are being used by Western enterprises that compete with us. The related funding would be derived as a result of the internal re-allocation of net income.

Relative to the introduction of the new sales tax we must recognize that in the future, producer and consumer prices will fluctuate in tandem. The achievement of a bi-level pricing system was defined as a goal already in 1968. The bi-level system to be realized now, however, cannot be "consumed" or reduced gradually. Quite naturally, in the introductory period--and mostly prior to that period--some long-standing price disparities must be settled by way of appropriate compensations in income. At that time, this aspect too will put us closer to a point where supply and demand can exert a stronger influence on the formulation of prices. (Given time, in certain cases this may result in the reduction of some prices.) An acceleration of the inflation rate can be avoided following the introductory period. (In the final analysis, to a rather significant degree, the total effect is also a function of external factors.)



Another argument against the new tax system may be the fact that not one socialist country utilizes the taxes we do, and even personal income is taxed differently from the way we have it planned. If, however, we focus on goals rather than on the means we apply, we can state that our goals are largely or fully in accord with those of the CEMA countries. The peculiar features and circumstances of individual countries play a role in the selection of means. At this point in time in Hungary it is important to introduce a taxation system that enhances the developing (developed) conditions for the production of merchandise.

The question frequently arises: will the new enterprise taxes stimulate exports?

By virtue of its neutrality, the system as such, does not stimulate exports. Even today, exports are not burdened by sales taxes (and I will not analyze direct taxes levied on enterprises from this viewpoint). It is true, however, that the introduction of the new taxation system may have an effect on exports, similar to the effect that results from the devaluation of the forint. This effect appears as a result of diminishing net producer prices and unchanged convertible foreign exchange rates. At the same time the inflationary effects of devaluation would not appear in the context of imports. On the basis of domestic experiences so far, one may argue whether devaluation affects exports, and if it does, how great the effect is in terms of increasing exports.

The two types of proposed taxes (the AFA and the SzJA) constitute a drastic change in taxation. They significantly reduce the ratio of taxes that are contingent upon the ratio of profits and resources. The new system encourages a situation--more than the present system does--in which state budget revenues are derived from income generated only by products that have been produced already. Viewed as a whole, however, the new taxation system is not meant to change the position of the state budget.

The success of tax reform, just as the success of any regulatory measure, depends on the extent to which we permit the resultant effects to prevail. It also depends on the extent to which we delineate other measures and the effects of such measures that are necessary from an overall economic policy viewpoint. In this respect there is a need for consistent conduct, so that as a result of tax reform, the present, from a regulatory viewpoint highly differentiated situation of enterprises be channeled in the direction of uniformity. This, incidentally is a requisite of the AFA system itself. The number of possible tax rates cannot be larger than three or four. Otherwise the application of AFA would be accompanied by an extraordinarily excessive administrative workload, and would violate the chief principle of neutrality by establishing exceptions. Of course, there are exceptions in Western countries too, but they are trying to resolve such matters through adjustments in the "tax base".

Adding AFA to purchase prices would obviously create an increased workload in places where there was no sales tax before. Also, the collection of taxes on paid bills, in the interest of securing tax deductions, will increase the workload. In my judgement, however, this will not cause excess work that could



not be handled easily by a well-organized group of administrators. There are, of course areas (e.g. department stores wholesale and retail aspects) where the grouping of taxes according to sales tax rates will cause more concern. The framers of AFA, however, are taking into consideration places where the administrative burden would cause unresolvable problems. In such instances a method of approximation could be applied. (E.g. by calculating tax payments on the basis of taxes paid during the procurement process; or, in case of a minimum sales volume, the business organization would not be authorized to charge taxes to customers, on the other hand it would not be authorized to deduct taxes accrued during previous phases either.)

My evaluation of the SzJA too reflects only the enterprise viewpoint. The SzJA should be evaluated also from a number of other viewpoints, such as its social and political effects, and its effects on the standard of living. The two types of taxes will revamp enterprise taxes, expenses and earnings, and both taxes will have an effect on consumer prices also. The possible gradual introduction of the new system within an extended time frame, rather than all at once, would undoubtedly create an excess administrative workload, nevertheless the internal revamping of withdrawals from enterprises would still have to be accomplished in one step.

Just as any other regulatory measure, tax reform is no panacea. Undoubtedly, however, tax reform can contribute to the resolution of our economic problems, provided that we establish conditions for recovery in other areas also, such as in the functioning of market forces, in other kinds of regulations (e.g. monetary regulations,) and in economic management.

12995

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## THESES ON SECOND STAGE OF ECONOMIC REFORM PUBLISHED

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[Text]

This document has been prepared under the auspices of the Secretariat of the Economic Reform Commission. Taking part in the Secretariat's work were leading academics and practitioners - both members of Commission and non-members, including Sejm deputies, representatives of the PRON's National Committee, and members of the Secretariat of the Party and Government Commission on the Review and Modernization of Organizational Structures in the Economy and the State.

Work on the concept of the second stage, which constitutes the continuation of the lines mapped out at the 9th Congress of the PZPR, has been based on the resolution of the 10th PZPR Congress, on the Sejm's resolution concerning the Government report on the course and effects of the implementation of the economic reform in the years 1981-1985, and on the decisions adopted at the 3rd Plenary Session of the PZPR Central Committee.

The document widely draws on the outcome of public discussion over future processes of reforming the economy, including the draft position paper of the Polish Economic Society (PTE), the proposals of the Zycie Gospodarcze staff, and studies by individual authors.

The contents of the section devoted to organizational structures in economic activity has been prepared jointly with the Secretariat of the Party and Government Commission for the Review and Modernization of Organizational Structures in the Economy and the State.

The draft document, presented herein, takes the form of theses describing the goals of the second stage of the

reform, lines of changes the mechanism of functioning of the economy, and proposed arrangements. In formulating them, the authors have taken into account the course of discussion, opinions, and proposals expressed at plenary sessions of the Economic Reform Commission (March 25) and the Consultative Economic Council (March 26).

A broad public discussion should make it possible to enrich the contents of the second stage of the reform, better specify individual lines of change, and make choices acceptable to the public.

Following the public discussion, a new version of the proposed arrangements for the second stage of the reform will be prepared, as a decision-making document, and detailed implementing programs will be worked out, covering:

- \* the trajectory [to the target model], specifying the manner of implementing the second stage of the reform;
- \* the program on the "strengthening of the zloty";
- \* the program on transforming the organizational structures of the "Center";
- \* the program on balancing the economy - primarily by means of economic regulators and realistic economic parameters, to be provided by the Government in accordance with the Sejm's resolution on the National Socio-Economic Plan for 1986-1990.

The Party's program adopted at its 10th Congress and the National Socio-Economic Plan for 1986-1990, passed by the Sejm, define the principal socio-economic goals for near future and ways of attaining them. The Central Committee's programmatic report, presented to the 10th Congress, pointed to the need for making a very important and responsible choice:

"Either we shall attain equilibrium more rapidly, accepting the related consequences - namely, major reduction of subsidies, rationalization of prices, firm observance of the principle of self-financing, retrenchement, and work discipline - and obtaining in return a smooth market, stronger motivation to work, and in consequence a quicker growth of net material product, or we shall reject these rigors, living for a longer time with the burden of market shortages, the dominance of the producer over the consumer, the constant threat of speculation and profiteering, blunted stimuli to work, and reduced chances for more rapid

development. In other words, we have to choose between a more difficult life today, needed if we want to have easier life tomorrow, and piecemeal measures leading to piecemeal results."

The overriding goal is to improve society's living and working conditions - and as a key condition for this, economic efficiency should be exacted with determination, and the competitiveness of Polish goods and services in foreign markets should be improved substantially. But this will not be achieved without consistent and accelerated changes in the mechanisms of functioning of the economy and the state. A radical acceleration of the reform will be decisive for what is essential in the process of socio-economic development - the attitude towards work and towards civic duties, the implementation of the socialist principle "to each according to his work", the stimulation and utilization of individual and collective initiative, and the smooth operation of all segments of the socio-economic system.

The rationale behind the changes reflects the need to strengthen the socialist character of the economy, which should be ever more effective in meeting society's material and nonmaterial needs, and at the same time to free society from what is alien to its ideals - from income differentials not warranted by results of work, from profiteering and patronage, from the neglect of the Polish currency, and from bureaucratic, cumbersome regulations.

The proposed arrangements must take into account the complexity of our realities, and in particular the complex economic situation, the diversified forms of the ownership of the means of production, the burden of foreign debt, and the necessity of broadening and tightening the country's economic links with the outside world.

#### GOALS AND DIRECTIONS OF THE SECOND STAGE OF THE ECONOMIC REFORM

1. Assessments of the process of reforming the economic system are presented in [the Government's] annual reports on the course and effects of the implementation of the economic reform. In the third part of the report for the 1981-1985 period, containing general conclusions, it is stated that in effect of measures undertaken to date, a qualitatively new system of functioning of the economy has emerged. It is diametrically different from the previous one, and in some aspects it also differs from the assumptions adopted in



the "Lines Of Economic Reform". A virtually new legal system, defining the institutional and organizational pattern of the economy, has been provided, and deep changes have been made in the organizational structure of economic management.

This has made it possible to set in motion new economic mechanisms, and especially to gradually realize the principles of autonomy, self-financing, and self-management of socialized economic entities. The degree of socialization of the processes of central planning and economic management - both at the micro- and macro-economic level - has grown.

The introduction of new mechanism has not been free of social contradictions and conflicts. This has had the effect of hampering changes in the system of functioning of the economy.

2. The above mentioned report points to the necessity of many changes in, and amendments to, individual arrangements, noting that "further process of reform implementation will be much more difficult socially and economically."

"The principal task will be to introduce economic mechanism into practice as widely as possible, to increase their efficacy, and to see to it that efficiency considerations are observed in economic policy - often against the interests of individual social and occupational groups. Of major importance will be the pace and the manner of approaching to economic equilibrium - a goal which is tied, through a feedback effect, with the efficacy of efficiency-targeted economic mechanism.

The concept followed so far has provided for a gradual phasing out of interim arrangements, acceptance of economic disequilibrium (price controls and wide extent of rationing of production supplies, capital equipment, and consumer goods), and delayed application of economic coercion. (...) If continued, this line will carry the risk that these developments may retard long-term economic development - with all economic, social, and political consequences."

3. The "General Conclusions" of the 1981-1985 report read: "It would be purposeful and highly desirable to speed up the approach to economic equilibrium, drawing on pricing instruments, and to consistently seek efficiency and self-financing - even at the price of temporary fall in production of some goods and services. The most recommended



option is to carry out a price-and-income operation permitting the elimination of most subsidies and restoring monetary/consumer-market equilibrium. This option would provide the greatest chances for setting in motion the processes of efficiency-oriented development of the economy."

4. It may be recalled that in its resolution concerning the Government's economic-reform report for 1981-1985, the Sejm of the Polish People's Republic, taking past experiences into account, confirmed the correctness of the adopted direction of the reform.

"As regards the implementation of the reform so far, the Sejm is of the opinion that the reform's legal foundations have made it possible to create a new system of functioning of the economy. Major progress has been achieved in socializing planning, and in broadening the powers and financial autonomy of local self-government. Big, although still unsatisfactory, progress has been scored in making enterprises autonomous, self-financing, and self-managing."

Among adverse developments, the Sejm's resolution list the following:

- \* insufficient improvement in balancing the market, which renders the provision of smooth mechanisms of self-regulation impossible;
- \* a failure to reform the field of pricing towards providing pressure for cost reduction, quality improvement, and production growth;
- \* insufficient selective function of the market (a result of disequilibrium) and absence of efficiency-oriented transfers of manpower, material, and capital resources;
- \* failures in investment policy, making the optimization of the economic structure more difficult;
- \* unwelcome curbs on the redistributive function of the Treasury, reflecting the continuation of huge subsidies and concessions for the sphere of material production;
- \* frequent changes in policy instruments, and especially in financial rules, narrowing enterprises' planning horizon;
- \* insufficient incentives to promote technological progress and expand exports;
- \* inefficacy of pay policy;

\* continuation of monopolistic practices in the economy, ignoring the requirements of efficiency and encouraging particularistic tendencies related to investments, pay, concessions, and subsidies.

"All this has combined to make a more intensive development of the national economy impossible. Inflation has continued."

5. In the opinion of the Sejm, the concept of the second stage of the reform should be based on a penetrating analysis of systemic transformations carried out to date. "The point of departure for such an analysis could be provided by the 1981-1985 report, with its general conclusions, and with emphasis on major intensification of the economic reform and rationalization of economic structures." The Sejm also stressed that "economic policy must be subordinated - to a greater degree than before - to the requirements of economic equilibrium, without which no progress in efficiency can be achieved."

6. What all diagnoses have in common is the conviction that there will be no success of the reform without equilibrium, just as there will be no equilibrium without the reform. In addition, there will be no positive effects of the reform, and no equilibrium, without changes in the structure of the economy.

In balancing the consumer market, an increase in supply is needed, and so is a firm policy on prices and wages. Elimination of the costs of poor production and poor organization is also indispensable.

A smooth functioning of the economy is contingent upon a correct pattern of prices. Prices must balance supply with demand. Otherwise, various forms of rationing will be needed, upsetting economic activity, strengthening the hand of the bureaucracy, and encouraging waste.

The pace of the rebalancing process - including the timetable and extent of price rationalization and subsidy reduction - and the introduction of correct measurements of enterprise assessment must be understandable to the public and must receive its acceptance.

When opting for quicker rebalancing, and also for quicker elimination of the hardships related to disequilibrium, we should accept greater discipline, harsher financial rules, and sometimes painful price corrections. And the consequent benefits and losses will be distributed unevenly - in accordance with the results scored. Those working poorly

and managing poorly must not count on the welfare umbrella - whether collectively or individually.

Both the workforce and the economic management bodies (central and local) must adapt themselves to the new rules of the game.

7. Proceeding from the assessment of the economic reform so far, it is necessary to make a radical switch to its higher, more advanced second stage. This stage should represent:

- \* Major acceleration in transforming the way the economy operates - as compared to the course of this process in 1983-1986. The second stage should mean in the first place an accelerated approach to the so-called target model of functioning of the economy, as specified in the "Lines Of Economic Reform", and a consistent introduction into practice of principal economic regulators and market mechanisms.

- \* The broadening of the reform program beyond the 1981 document "Lines Of Economic Reform". In many fields, the "Lines" must be broadened substantially, to take into account the most recent experiences of Poland and other socialist countries, the present and the expected realities of the Polish economy, and progress in the knowledge of socio-economic mechanisms.

Such an approach is in accordance with the resolutions of the PZPR's 10th Congress and 3rd Central Committee Plenum. It reflects aspirations and demands of the public committed to the prosperity of this country. The attainment of the second stage of the economic reform will constitute a major step forward in progressive transformation of economic relations in Poland. For this to be achieved, it will be necessary to break the existing barriers, including social ones, which so far have prevented full application of all mechanisms of the economic reform.

3. The principal objective of the present and future reformatory activity is to make breakthrough changes in the rationality of economic activity and in technological, economic and organizational innovation. This should bring about a rapid increase in economic efficiency, better satisfaction of society's needs, and better working and living conditions.

The underlying assumption of the economic reform, serving the attainment of the above mentioned goals, is - in accordance with the "Lines Of Economic Reform - the

emergence of autonomous, self-managing, and self-financing enterprises. These basic economic organizations should promote socialist entrepreneurship and innovation, while at the same time assuming responsibility for rational and efficient employment of production factors and satisfaction of society's needs.

9. The reforming of the economy in the years ahead will consist in accelerated measures aimed at:

- \* balancing the markets for consumer goods, production supplies, and capital equipment, which requires a large extent of equilibrium-level prices (which would thus assume a parametric character);

- \* setting the economic parameters at realistic levels - as a condition for correct cost accounting and for the operation of the market mechanism;

- \* expanding enterprise autonomy and promoting socialist entrepreneurship;

- \* developing self-management;

- \* providing room for free flow of physical and financial resources between economic organizations;

- \* improving economic mechanisms and firmly observing the principle of enterprise self-financing;

- \* transforming the institutional system of economic management, especially the "Center."

These measures will speed up the process of economic restructuring, boost innovation, and provide conditions for opening up to the outside world.

10. The economy's capacity to achieve and consolidate overall equilibrium and to overcome sectoral shortages is an elementary aspect of efficient economic activity. It is a necessary assumption for the correctness of cost accounting, efficiency-oriented incentives, and mechanisms of self-regulation, and for the consumer's smooth access to the desired goods and services. It is also a necessary condition for smooth operation of a centrally-planned socialist economy, widely drawing on the market mechanism.

In conditions of a balanced market and active role of prices (balancing demand with supply), the market mechanism may operate in accordance with the "principle of public interest" - i.e., with the principle under which a change in the price of a given article not only ensures equilibrium, as reflected in well-stocked stores, but also - which is



even more important - makes it possible to finance the expansion of the production of these articles in accordance with society's preferences (the prices providing good information about society's needs and defining correctly producers' financial capacity and economic standing). Therefore, the currently unbalanced markets should be put into equilibrium quickly.

It is assumed that price policy will be subordinated to these requirements.

In place of monopolistic structures, where it is justified and possible, the economic and organizational arrangements which promote competition should be applied. Competition, aimed at better satisfaction of people's needs and attainment of higher efficiency, is necessary in the socialist economy. Economic emulation should become a driving force behind progress in socialist enterprises.

11. The balancing of the market should be accompanied by the process of setting realistic levels for economic parameters - a necessary condition for ~~effective indirect~~ control of the economy. This process should include, as key elements, a radical reduction of subsidies, and the provision of realistic tax rate, rate of exchange, rate of interest, value of fixed assets and depreciation charges, costs of the use of natural environment and natural resources, etc.

12. In improving the economic mechanisms, a steadily sought goal will be to make pressure for higher economic efficiency, and especially for cost reduction, more widespread. This will require to:

- \* abandon the customization of parameters along sectoral lines;
- \* clearly orientate the economic system towards generating "economic surplus" at all levels of the economy;
- \* consistently reduce the size and extent of subsidies and of arrangements making customized direct subsidies possible;
- \* limit the redistributive functions of the state treasury;
- \* refrain from outside interference in diversified financial situation of enterprises and their workers resulting from efficiency differentials - irrespective of their causes;
- \* observe the principle that the efficiency of a planned project is the only criterion applied in granting development credit.

If attained, the major progress in balancing the economy will make it possible to:

- \* rapidly get rid of the rationing of raw materials, intermediates, and capital equipment;
- \* replace the central rationing of foreign exchange with the system of owner-type export revenue accounts [RODs];
- \* radically restrict the Center's interference in the production and economic situation of enterprises and whole branches.

13. Collective and individual entrepreneurship, motivated by the desire to improve one's financial status, put one's talents and skills to the test, or to move upward on the social ladder should become the driving force for the economy. These are positive motivations. In order to draw on them more broadly, it is necessary to eliminate barriers arising from the law, from organization, and from people's consciousness. The notion of a "success man" has almost disappeared from public consciousness, and it is often perceived as almost a dirty word. At the same time, passive attitudes - whether among managers or the workforce - should be counteracted by means of economic coercion. In changing the workers' attitudes, an important part should also be played by an accelerated introduction of the system of labor teams, operating on the basis of financial autonomy and voluntary access - as a factor improving the organization of an enterprise and conducive to the expansion of self-management.

14. The development of entrepreneurship will also be served by the consolidation of the position of state enterprises, including the strengthening of worker self-management. This should be helped by adequate regulation of relations between enterprises and state administrative bodies. These relations will be based on the provisions of Sejm-passed laws. To guarantee their observance, it will be possible to bring infringements to the court.

Administrative bodies' powers to set - and change - customized taxes and other surcharges, and subsidies and other forms of state aid will be curtailed. In effect, the applications of enterprises for such "preferences", now so numerous, will become purposeless.

15. Changes in the field of the economy's organizational structures will support the development of entrepreneurship by providing conditions for the plurality of forms of these structures, their flexibility, and especially demopolization.

Commercial-law (limited liability and joint-stock) companies should become a dynamic element of the structure.

All rigidities hampering their development will be removed - especially those concerning the merger of assets and expertise between units from various ownership sectors, or the selection by founders of the form they prefer (the limited liability company or the joint-stock company).

The category of public utility enterprise will continue to be confined mostly to municipal and social services. Here, the systemic modifications will be directed at strengthening the decision-making autonomy and self-financing of the public utility enterprise - without losing sight however, from its specific features related to the direct pursuing of optimal satisfaction of society's needs, rather than maximizing the economic surplus.

The plurality of organizational forms will be reflected in the co-existence of big units with small ones, single-plant enterprises with multi-plant ones, and centralized organizations with decentralized ones - be them state-owned, cooperative, private, or mixed-owned.

16. An accelerated transformation of the way the economy functions will be conducive to breakthrough changes in the following fields:

- \* technological progress and innovation in the economy;
- \* economic restructuring, including selective modernization of productive assets;
- \* the opening up of the economy to outside world, expansion of exports, and greater contribution to world trade and the international division of labor.

These fields are of key importance for the growth of economic efficiency and for Poland's catching up with international trends.

17. Dynamic scientific and technical progress, technological change, and organizational progress, or in other words the innovative character of the economy will constitute the principal factor of efficiency growth. This factor will be conducive to major cost reduction, high quality of production, rational restructuring and opening up to the world and the protection of natural environment.

There is a number of factors which could help stimulate innovation in the Polish economy. They include the high level of society's education and occupational qualifications, relatively modern equipment in some branches, an extended network of R&D facilities, or links between many Polish producers and their partners in socialist and capitalist countries.

18. The innovative character of the economy requires high levels of inventors' creativity, managers' enterprise, and workers' commitment. It involves the screening of talents and provision of conditions conducive to their utilization. It means permanent, large-scale education, the learning of ever new knowledge and qualifications, opposition to old habits, and revision of the existing state of affairs. Such processes can be set in motion only in response to very strong material and nonmaterial incentives - both positive and negative - and as such they require high remuneration of creativity and entrepreneurship, but also economic coercion under which technological and organizational apathy will result in major deterioration of economic units' financial and pay capacity, up to the state of default.

19. Innovation abhors hierarchy, routine, administrative straitjackets, barriers to entry into a new field, etc. But it feeds on grassroots forces of progress, such as, individual commitment and the establishment of new organizational units - resilient, sometimes aggressive, and mostly small-sized.

The state bodies have a major role to play in making scientific and technological progress more dynamic, but they should not try to substitute for the grassroots forces. They should not intercept the resources necessary for enterprises to innovate, and they should refrain from undertaking measures which - at that level - are bound to face the barriers of information, methodology, and motivation. In the discussed field, the state bodies may, and should, play a positive role by means of:

- \* removing the rigidities in organizational structures and economic mechanisms;
- \* supporting research work and initiating and funding projects which, because of long gestation or high risks, cannot be justified by micro-economic analysis;
- \* organizing and supporting the redeployment of people whose knowledge and skills have become obsolete in new conditions;
- \* easing contacts among people and among enterprises, especially as regards international contacts;
- \* cushioning the social consequences of technological and organizational changes.

20. Rational, economically-warranted transformation of the physical structure of the economy is a key issue in the



contemporary world. It flows from the rampant progress in science and technology. Restructuring, if based on the criterion of economic efficiency, relieves the economy from the burden of industries, products, or processes which are obsolete now or will become such in near future. On the other hand, it results in the rise and expansion of new sectors oriented to the future, offering prospects for high increases in labor productivity, and competitive in foreign markets. Restructuring is based on scientific and technological progress, but it also reinforces this progress, by providing the economy with technologies which offer big chances of further progress.

It is expected from restructuring that it will:

(a) prevent the economy from a slowdown in its growth, generated in earlier years by industries which have now ceased to act as "locomotives of growth".

(b) help overcome the shortages of material and investment resources, caused by the high unit consumption of materials, energy, and capital in the present organizational structures.

21. Restructuring involves investment, and as such requires the collection of financial resources. In the first place, of course, the goal is to make the economy capable of generating the necessary amount of capital formation. It is also important to provide organizational and economic arrangements conducive to the flow of financial resources between economic organizations, and towards industries and firms which have good and promising ideas. Another condition for the success of restructuring is greater mobility of labor.

22. A more open economy and broader participation in the international division of labor are necessary conditions for the satisfaction of many needs, for the overcoming of technology gaps, and for the attainment of high productivity of labor. In a country such as Poland, it would not be possible to meet the economic and social challenges of the scientific/technological revolution without broad international contacts, without access to, and enrichment of, the international pool of knowledge, without technology transfer, or without dynamic trade and cooperation with foreign partners. In effect of delays and regression in the field, Poland's present position in international economic relations is not only below that of most countries of high and middle level of development but also below the position of many developing nations whose overall economic level is lower than that of Poland.

The opening up of the economy to outside world means, in the first place, the expansion of exports. For Poland, this general rule is still more important, because of the foreign debt, the costs of its servicing, and the resulting drastic cutbacks on imports which hamper the country's economic development.

In embarking on the second stage of the economic reform, we expect constructive cooperation from our foreign creditors and partners. On our part, what is needed most is an effective export expansion, to be carried out by all possible means. The feasibility of export expansion is a function of the degree to which the economy is balanced and of the economy's competitiveness in foreign markets.

23. The accelerated implementation of the economic reform should be accompanied by the development of theoretical studies and subsequent perfection of practical arrangements in various areas, including the following ones:

- \* the flow of financial and physical resources (on a commercial basis) between economic organizations;
- \* the banking system and its structure;
- \* the tax system;
- \* pay incentives at socialized enterprises, labor mobility, and manpower economics;
- \* work organization, and especially labor-team schemes involving autonomy in financial settlements and pay;
- \* the functioning of state bodies, especially as regards the designing and implementation of economic policy;
- \* organizational structures in the economy, taking into account the plurality of ownership sectors and types of enterprises.

24. The acceleration of reform processes offers a chance, but this chance involves some social costs. An improvement in economic efficiency, a better operating market, a quicker technological progress, and consequently a higher general standard of living will be possible only if society accepts increased requirements and increased effort; quicker growth of incomes of individuals and working collectives who are more able, more enterprising, and ready to exert greater effort; changes in the structure of consumption (following changes in the price pattern and market rebalancing); and

threats to the stability of work in a given enterprise, and to the stability of performing one's trade, if the enterprise in question shows poor economic results.

If no such acceptance is granted, not only will it be impossible to speed up the reform, but we will also face the prospect of gradual economic stagnation.

25. It is necessary to continue strengthening the principles of autonomy, self-management, and self-financing of enterprises, to be coupled with their full responsibility for the attained economic results. In effect, this should permit general observance of the overriding socialist principle of social justice: "from each according to his ability and capacity, to each according to the amount and quality of his work."

26. The quality of work is a special aspect of the second stage of the reform. Socialism should provide equal chances for all - but with no automatism in distributing the jointly produced effects. Pay differentials between those who work honestly and efficiently and those who work poorly should widen. At the same time, high incomes from tax fraud and profiteering should be counteracted more vigorously. On the other hand, adequate social-welfare protection is needed for those social groups where it is not possible to improve one's living standard by means of work.

The reform is an objective necessity. It provides a chance - but without automatic guarantees. It is the most realistic program on accelerated development of the country, on qualitative changes and improvement in living standards. This concept has been confirmed and enlarged upon in the 10th PZPR Congress resolution which stresses the necessity of radical changes, and calls for consolidating both segments of the reform - central management and enterprise activeness. The resolution is aimed at quick removal of soft spots and improvement in the efficacy of economic mechanisms which in previous years were weakened by disequilibrium, disfunctioning of the economy, and [Western] restrictions.

27. The reform will be a difficult process - not free of social contradictions, and even conflicts. Therefore, special importance is now assumed by the state of society's economic consciousness and knowledge of basic economic laws and mechanisms, cost accounting principles, determinants of our economy, and the magnitude of challenges facing it.

If proper attitudes are to be shaped and public backing for the reform received, vigorous political and informational

activity will be required from all organizations and communities declaring their support for the program of breakthrough, radical reforms - and especially from the Party and political alliances, from PRON, trade unions, and social and occupational associations such as PTE [economists], NOT [engineers], TNOiK [organization and management], the Accountants Association, and ZPP [lawyers].

The economic reform offers a chance for the young generation, for innovators, for enterprising people ready to accept risks in a search for higher efficiency and personal success. This is a social group whose support should be sought in the first place.

## PROPOSED ARRANGEMENTS

### Balancing The Economy

28. Economic equilibrium - covering the markets for consumer goods, production supplies, capital equipment, and labor, and the spheres of finances and foreign trade - is a necessary condition for a consistent application of the enterprise self-financing principle, for smooth operation of economic regulators, and consistently for smooth operation of self-regulating mechanisms. Rapid balancing of the economy is thus a major task for the second stage of the reform.

The goal of balancing the economy and creating smoothly functioning markets will be sought through systemic changes and economic policy measures aimed at higher productivity, efficiency-oriented changes in the economic structure, higher production (supply) of goods and services, and demand rationalization.

29. A special role in balancing the economy will be played by measures aimed at production growth and higher economic efficiency, including the elimination of middlemen in trade in production supplies; abandonment of the rationing of raw and intermediate materials; reduction of government orders; tightening up of consumption norms in the sphere of production and plant operation; liquidation of inefficient economic organizations featuring high unit consumption of materials and energy and low productivity of labor; emphasis on the technical level and quality in product acceptance procedures; more rapid turnover in capital assets.

Measures designed to release all factors of supply growth will be accompanied by undertakings rationalizing demand, such as effective control of pay growth in the



material and nonmaterial spheres, more stringent principles and terms of enterprise crediting, changes in the subsidies system, introduction of market mechanisms to new areas of the economy, changes in the price pattern, and the setting of realistic levels for other economic parameters.

30. Mandatory wholesaling of raw materials, intermediates, and machinery has been substantially reduced this year. In 1988-1989, further limitations will follow. In effect, superfluous organizational units in the sphere of production-supply trade will be liquidated, and the organizational structure of this sphere improved. Still this year, a review of organizational structures in the sector of production-supply distribution will be mounted, under the auspices of the Party and Government Commission for the Review and Modernization of Organizational Structures in the Economy and the state.

By 1990, rationing will be abandoned - in respect to consumer goods on the one hand and raw materials, intermediates, machines, equipment, and transport vehicles on the other (with the exception of fuels and energy, and the most scarce items).

The flow of means of production to enterprises will be regulated by direct contracts between enterprises and by their financial potential. In order to reinforce durable contractual relations in the sphere of producer goods distribution, a broader use will be made of economic stimuli, such as preferential credit facilities, price surcharges and rebates, and removal of administrative price controls.

These measures should help to improve the sphere of producer goods distribution, cut excessive inventories, and better adjust the supply of raw and intermediate materials - through the market mechanism - to the demand from the most efficient producers and the requirements of economic equilibrium.

31. The extent of government orders for standard products will be gradually narrowed, so that starting from 1990 these orders should be confined to the implementation of R&D projects and to the launching of products and processes which involve high risks and are connected with the program on restructuring and cuts in unit consumption of materials, fuels, and energy.

The reduction of the scope of government orders will be conducive to the development of market relations in the sphere of production supplies and investment resources.

32. The artificial division of the domestic distribution system into its market segment [for the population and private trades] and producers' segment [for socialized enterprises] will be abolished. Opportunities will be provided - with no administrative curbs - for private trades and the population to purchase articles from sales networks of distributors of the means of production, and for economic units to have access to sales networks of consumer goods distributors.

33. In the distributive sector, including the procurement of farm produce, the areas reserved for exclusive servicing by particular organizations will be opened up. The share of producers in distributive activity should increase. This will be of special importance for the sphere of farm procurement - in respect to state enterprises processing the raw materials purchased [by monopolized cooperative networks]. Direct organization of distributive activity by producers should be based on economic analysis and should reflect their technical potential. This is particularly true of such areas as meatpacking and fatstock procurement, grain milling and feed production, grain procurement, fats production, etc., but it may also apply to the farm equipment industry or the fertilizer industry.

Conducive to this will be the provisions of the Anti-Monopoly Act, according to which any restrictions in the producer's or the buyer's access to distributive activity are treated as monopolistic practices.

The form of factory stores will be promoted - if only producers find them a commercially viable proposition.

34. Growth of high-quality production will be served by the system of consumption standards for raw materials, intermediates, and energy in the spheres of production and operation, and by systems of technical-level assessment and qualitative inspection of products. Bans will consistently imposed on products involving input consumption above state consumption standards, on equipment whose operation involves high consumption of material resources, and on products of low technical level and poor quality.

35. The restoration of economic equilibrium will be served by the elimination of inefficient economic units - as a result of consistent observance of the principle of self-financing. At the same time, the principle will be observed that an enterprise's inability to self-finance entails the forfeiture of its right to autonomy and - if internal recovery proceedings prove ineffective - leads to its liquidation and transfer of assets to other, more efficient economic organizations.

The procedures provided for in the State Enterprises Financial Recovery And Bankruptcy Act will be applied with determination - including the liquidation of an enterprise in question.

Still in 1987, the enforcement of this Act will be intensified, especially in respect to enterprises featuring high unit consumption of materials and energy and low productivity of labor. This should contribute to releasing inefficiently-employed physical, financial and manpower resources, and consequently to opening up new opportunities for more efficient enterprises.

36. Greater attention will be paid to expanding imports of goods with high ratios of zloty-denominated value to hard-currency expenditure. In particular, such imports should be financed with resources earned from domestic sales for hard currency (Pewex, Baltona, etc.). This should increase and enrich market supply.

37. In balancing the economy, measures aimed at supply growth must be reinforced by undertakings designed to rationalize demand. The tapping of all opportunities for higher production of consumer goods and services will be accompanied by effective control of pay growth in the sphere of material production and in non-trading institutions. And in order to make pay growth control effective, wage-fund (taxation) formulas will be applied in the material sphere, and uniform pay principles will be followed in the non-trading sphere.

In the sphere of material production, emphasis will be placed on the threshold formula and the formula of individual pay taxation - to be coupled with simultaneous high, prohibitive taxation of wage growth above limits defined under these formulas, and with the reduction of concessions and exemptions from inflated wage growth tax (to be confined to export-linked concessions).

The more effective control by the "Center" of the amount of funds earmarked by enterprises for wages will be accompanied by a fuller autonomy of enterprises in spending these funds. This should influence the rationalization of employment and the balancing of the labor market.

38. The restoration of equilibrium will be served by changes in the system of subsidies, to be introduced starting from 1988.

The goal will be to seek uniform rates of product (indirect) subsidies - and in cases where differences in production costs arise from diversified conditions (e.g., costs of transporting raw materials), a separate subsidy should be set to finance higher costs incurred outside the producer's control.

At the same time, wherever possible, arrangements will be made to subsidize a particular consumer (buyer) who, for reasons of social policy considerations, should be granted a minimum level of consumption. This will apply primarily to such goods as apartments, to municipal services, and to some social services such as kindergarten education and recreation. This means that prices for these services will be set at levels corresponding to their real costs, and that purchases of these services and goods by citizens with particularly low income levels will be partly subsidized.

39. Changes in the subsidies system will be accompanied by a broader tapping of local funds (housing, welfare) as a source of cost re-funding for low-income buyers of some goods and services. This will make possible a substantial reduction of Treasury resources which, under the present system, have been partly used to subsidize a high level of consumption of high-income groups.

The present subsidies to rents or to municipal services, set in relation to the unit of apartment area, to the physical unit of heat consumption, etc., have the effect of channelling the biggest sums to people with the highest standard of housing conditions. There is a similar situation in the system of subsidies to passenger transport or to many consumer goods.

Changes will be made in the system of subsidies to producer goods used in agriculture - by moving away from the subsidizing of goods, such as mineral fertilizers, feed, or pesticides, to the subsidizing of purchase costs.

Changes in the system of subsidies should contribute to reducing the amount of subsidies and restricting the redistributive functions of the State Treasury.

40. Savings will be made in Treasury expenditures, especially in spending on administrative staff, and in other areas, primarily the financing of enterprises and investments.

41. The rebalancing of markets for production supplies and capital equipment will be sought through more stringent principles and terms of crediting.



Introduced into banking practice will be the category of durable creditworthiness, describing the capacity of an enterprise to self-finance its operations in effect of long-term development projects. This is of great importance in assessing enterprises' development programs and financial recovery programs.

The role of the interest rate will be increased with the introduction of the principle that the base interest rate must not be lower than the rate of inflation. Further differentiation of interest rates on credit, above the base rate, will reflect maturity and the risks involved.

42. The terms of investment financing will be tightened up, especially in respect to Treasury funds. The principle will be enforced that project funding can be provided only on condition of punctual completion

and avoidance of cost overruns. The system of investment sureties will be applied in order to check excessive demand for investment in buildings [rather than capital equipment].

43. Changes will be made in the principles of crediting housing construction - private and cooperative - by moving away from the crediting of cooperatives towards the crediting of individual cooperative members, and by diversifying the amount of credit and interest rate in accordance with the size and standard of apartments.

44. Saving opportunities will be broadened - both as regards the existing forms and the new ones, such as purchase of bonds, contributions to pension funds, etc.

45. The restoration and consolidation of equilibrium will be served by the broadening of the areas of the economy to be governed primarily by the market, with central control confined to shaping the market.

These areas will be marked by the system of contractual prices, free from direct administrative interference. In the purest form, this is now seen in markets for fruit and vegetables and for eggs, and in the glassware/ceramics and footwear industries. Shortly, this area will be broadened substantially - starting with following industries: the whole of electronics; household appliances; cars (drawing on sales tax); part of the textile/clothing/leather industry, especially wool products, clothing, and hosiery; furniture; some portions of food processing, including dairy products, cereal products (although in these two branches, it would be also reasonable to set lump-sum product subsidies to contractual prices), and confectionery.

If new areas of production are to be embraced by market mechanisms, this will require in the first place that curbs on pricing are removed and rationing eliminated (both from the sphere of purchases and sales). Initially, this may lead to substantial, diversified price movements, and to disturbances in production - caused, e.g., by the elimination of the highest-cost producers, or by the loss of access to production supplies under the new conditions. On the other hand, the role of the market as a verifier of the quality and quantity of production, etc., will increase.

Another area of the economy consists of sectors which, for historical reasons, are marked by a high degree of monopolization of production or by large-scale, long-term disequilibrium, and where there are neither economic conditions nor possibilities for competition from other producers or from foreign suppliers. This area will be systematically narrowed.

First, steps will be taken to split-up those enterprises which enjoy monopolistic position and whose set-up makes it possible to hive off technically- and economically-independent units. In respect to inefficient component suppliers, banks and administrative bodies will apply - with dispatch - the procedures of the State Enterprise Financial Recovery and Bankruptcy Act. This should help shorten the period of disturbances in production. At the same time, the transformation of the status of such enterprises towards mix-ownership enterprises, or companies owned by the buyers concerned - will be encouraged.

The third area of the economy consists of infrastructural sectors featuring high capital-output ratios and low mobility of production factors (organized, for technical and economic reasons, into large production organizations), and public utility sectors in which the operation of market mechanisms is limited. These include mining and power generation, raw material stages of the metallurgical industry, public transport and communications, the fuels industry, etc. In respect to this area, the central control of the flow of financial and physical resources will be tightened up, while greater use will be made of economic mechanisms in the operation of internal organizational units. The extent of this area of the economy will be reduced, in step with the emergence of appropriate conditions.

46. The goal of balancing the economy and keeping it in equilibrium requires that the pattern of prices be changed to ensure:

\* a greater extent of equilibrium prices, which would than assume the character of exogenous parameters for enterprises;

\* a greater extent of [foreign trade] transaction prices, as a basis for setting the prices for basic raw and intermediate materials;

\* a sub-marginal level of the exchange rate, corresponding to the real costs of exports (with the exception of food and farm-produce exports).

47. The pace of transforming the price pattern will have major influence upon the course of balancing individual markets and making the levels of economic parameters more realistic - and consequently, upon the pace and extent of expanding enterprises' real economic autonomy and abandoning customized, administrative control of economic activity.

Three variants are proposed for the transformation of the price pattern:

- (1) an operation to be carried out in a single year;
- (2) an operation to be carried out in 2 to 3 years;
- (3) a step-by-step approach, to be spread for many years.

Each variant has its pluses and minuses.

The first variant may provoke, upon its implementation, a wave of negative public feeling - but the positive economic results arising from equilibrium would emerge quite soon.

The second variant, planned for 2 to 3 years' implementation, should not give rise to such negative reactions, although there is a danger that they could emerge towards the end of that period. The organizational and implementing risks are also lower, since mistakes could be corrected more easily under this variant. If chosen, it would have to provide an adequate sequence of measures aimed at changing the pattern of prices. The first to be affected would be the prices of coal, a production-supply item, and, among consumer goods, of meat and meat products (to be coupled with a simultaneous elimination of subsidies).

The step-by-step variant could be received by the public with relative calm, but at the same time it would mean much longer continuation of financial and market disequilibrium and of an incorrect price pattern - with all their adverse consequences for motivation to efficiency-oriented attitudes among individuals and enterprises. The implementation of this variant would require very harsh and firm restriction of wage-fund growth opportunities.

48. In the pricing system, the principle of setting prices for basic raw and intermediate materials at transaction price levels will be firmly observed.

49. The extent of contractual prices will be broadened at the expense of official prices, to be coupled with a simultaneous abandonment of regulated prices.

As a principal means of influencing price dynamics, upper limits will be set for the permissible growth of prices. These may be percentagewise limits - but in respect to basic raw and intermediate materials and products which, to a large extent, are traded internationally, these ceilings should take the form of absolute value corresponding to average transaction prices [foreign trade price times the official rate of exchange - ed. note]. In step with the balancing of individual markets, administrative curbs on price movements will be phased out - except for cases to which provisions of the Anti-Monopoly Act are applicable.

[Producers'] obligation to present a contractual-price calculation sheet and the principle of basing these prices on the category of warranted costs should also be discarded. In practice, the present arrangements provide a psychological basis for setting prices at cost-plus levels. But enterprises would be required - under financial and general regulations - to produce ex post cost-calculation sheets, to enable the inspection - by the enterprises themselves and by the state's financial agencies - of cost accounting and reporting.

50. Changes in the pattern of prices will result in an increase in their general level. The highest growth will be seen for the previously subsidized articles and the lowest for items highly taxed with sales tax (reflecting the possibility of partial reduction of the tax rate).

Changes in the level of prices will be accompanied by a growth of the general level of incomes, stemming from compensatory arrangements - necessary in such cases - mostly in the form of lowest-pay indexation. The principle to be followed will be to keep the growth of overall personal incomes at a rate not higher than that of prices (excluding the prices of alcoholic beverages and cigarettes). These processes, however, may be accompanied by changes in the level of real incomes of individual groups of the population.

51. A growing role in the process of balancing the economy will be played by economic parameters and instruments. Serving this will be uniform principles for controlling the behavior of economic entities by means of financial instruments, and the setting of realistic levels for economic parameters, especially the following ones:



- \* sales tax with diversified rates, regulating the level of prices in accordance with the requirements of equilibrium;

- \* the rate of exchange (it will be used both to control foreign trade exchanges and - to a growing extent - the level and structure of domestic prices, especially the level of prices for basic raw and intermediate materials);

- \* the principles of calculating fixed assets depreciation, the level of depreciation allowance rates, and the system of depreciation allowance division [between the Treasury and the enterprises];

- \* the principles of financial settlements in foreign trade;

- \* the system of investment sureties for construction operations;

- \* the interest rate on bank credits and its diversification;

- \* the principles of controlling the amount of wage funds at enterprises;

- \* the principles regulating access to foreign currency.

52. In step with progressing balancing of the economy, with a view to ensuring the durability of the achieved equilibrium, steps will be taken to reduce the growth rate of financial demand - both from enterprises and from non-trading institutions. A portion of Treasury resources, obtained in effect of subsidy reduction, will be used to repay the Treasury's debt to the [NBP] bank - while the amount of credit available to enterprises will be kept at the [previous] level reduced by the amount of debt repayment.

### Broadening Enterprise Autonomy and Promoting Entrepreneurship

53. The autonomy of enterprises will be deepened primarily by means of removing the still existing formal and organizational barriers of various kind. Measures to be taken in this field will consist in:

- \* authorizing state enterprises to set up, or join, commercial-law companies, in cooperation with any type of economic entity - whether socialized (state enterprise,

cooperative, social organization, State Treasury), or private; in the case of companies involving private-sector partners, some restrictions may be considered, e.g., the requirement of a permit from the parent body, or a minimum limit for the socialized unit's share in the company's stock;

- \* providing the possibility of transforming state enterprises into commercial-law companies;

- \* providing the possibility of establishing joint-stock companies in which part of stock shares could be sold to employees as registered shares;

- \* introducing legislation under which commercial company charters could include provisions on the formation of worker self-management and on the inclusion of self-management representatives to supervisory councils;

- \* broadening the extent of entities eligible to issue bonds, to include natural persons;

- \* verifying regulations on commission sale schemes, so as to make it possible to apply this form to construction and component production as well;

- \* revoking state enterprises' obligation to ask parent bodies for permission to enter associations or other groupings;

- \* opening up associations and other groupings of state enterprises to other socialized-sector units;

- \* removing the restrictions in economic units' access to licenses for independent foreign trade operations - both as regards the required size of exports and the restrictions concerning product range and geographical pattern of markets (enterprises' obligation to present an opinion of the parent body upon applying for the license will be lifted, and the practice of consulting the established foreign trade agencies on this subject will be discontinued).

54. The autonomy of cooperatives will be increased. The obligation to receive [from the authorities] a statement on the purposefulness of establishing a cooperative will be lifted. The room for cooperative activity outside the structure of central cooperative unions will be broadened, by offering the possibility of associating in a Supreme Cooperative Council. The principle of mandatory formation of centralized development funds at the central unions of cooperatives should be abandoned.

The central unions will be relieved of the tasks and functions of parent bodies, performed so far, such as issuing opinions on wage systems or on applications for a foreign trade license, handling formalities connected with government orders, etc.

The existing multi-tier organizational structure of cooperative unions will be verified.

55. Conditions will be consistently provided for the development of economic activity in any ownership form and in any organizational structure - if only the activity in question complies with the law.

Serving this will be the possibility of initiating the establishment of state enterprises and commercial companies with capital participation of state enterprises, cooperatives, natural persons, and private firms.

State enterprises, together with various types of socialized-sector units (cooperatives, commercial companies, mixed enterprises) are - and will continue to be - the principal elements of the national economic system.

The broader opportunities for establishing various types of commercial companies by the existing enterprises and companies will be accompanied by a more intensified process of establishing new state enterprises, directly on the basis of State Treasury resources. This process will be targeted mainly at small-sized and locally-operating innovative units.

56. In accordance with the provisions of the Anti-Monopoly Act, all agreements on enterprise associations will be verified - still in 1987 - from the standpoint of fight against monopolistic practices, such as the exclusivity of distribution or rationing, market division, etc.

57. Opportunities will be provided for the establishment of enterprises - especially small ones, in the form of commercial companies - which would undertake commercial application of selected R&D findings. The investors concerned will be allowed to join such companies - to be set up by state enterprises and R&D establishments - as shareholders earning income also on this account. Stable and beneficial economic conditions for such units, irrespective of the type of ownership or organizational form, will be provided in a law on small new-technology units.

58. Legal and economic conditions will be provided for the development of private economic units and commission-sale schemes in the distribution, catering, and small businesses sectors, and also in some segments of construction and component production.

59. In all ownership sectors, the procedures involved in the starting of economic activity will be simplified.

The required documentation will be simplified and the number of institutions licensing the start-up of a given type of economic activity will be reduced. The requirement to obtain permits for individual kinds of economic activity will be gradually replaced by the system of [newcomers'] statements on the start-up of economic activity and of control of this activity's coherence with state standards currently in force.

60. The opportunities for the flow of financial resources - not only through the form of commercial companies - will be broadened. The form of securities will be activated - by permitting individuals to purchase and trade in bonds, and by issuing registered shares for employees. In step with the development of commercial companies, there will emerge the problem of organizing the turnover in shares (in the case of joint-stock companies).

It is expected that socialized economic units may be allowed to trade in their rights to [foreign currency] funds on export-revenue accounts [RODs] still this year.

This requires that work be started on the organization of trade in securities in conditions of the socialist economy.

61. In respect to small socialized enterprises, the tax-book system will be introduced as a basis for financial settlements and their recording. Accordingly, the system of records and documentation will be simplified, as will be the system of taxes paid by these enterprises. This should help to improve their employment structures and increase flexibility.

62. There will be a general review of the principles of documentation and recording binding on socialized economic units, and state enterprises in particular, with a view to make the related activities much less time-consuming. Steps will be taken to relieve enterprises of functions which should be performed by the state's financial apparatus, such as the calculation and collection of taxes from



private economic units, the calculation and collection of personal-income equalizing tax, etc.

Work on transforming the state statistical system, so as to allow greater integration of statistical information and its multiple utilization, will be speeded up - which should make it possible to simplify the reports required from enterprises and to reduce the number of these reports.

63. A successive review of legal regulations governing economic activity will be carried out soon, in order to eliminate regulations which are incoherent with the economic reform and to restrict the number of lower-rank legal acts. Wherever possible, useful and stable regulations should be included into the provisions of Sejm-law-level acts, thus reducing the extent of delegation of authority in the latter.

An important role in this process should be played by an automated system of legal information. The well-advanced conceptual work on this subject should be completed, and its results introduced into practice, as soon as possible.

64. Work will be started on adjusting the Civil Code to the requirements of large-scale commerce (primarily as regards trading among socialized economic units). It is true that, in addition to regulating general distribution, the Civil Code may perform the function of an economic code, but this will require its adaptation to the requirements of large-scale commercial activity.

And since the "commercialization" of the Civil Code must bring about further diversification of its provisions, the possibility of preparing a separate economic code should be considered.

It is also necessary to modify administrative law, financial law, and labor law - to adjust them to the requirements of the economic reform. Great importance is being assumed by regulations concerning the forms of public property, the organization of supervisory activity, organizational forms of economic activity, and relationships between economic organizations and bodies of state administration.

65. The system of legal servicing of economic units, especially small ones, will be developed - by providing the room for the institution of a team of legal counsellors at enterprises (in addition to the institution of the enterprise legal counsellor, known at present). To orders from economic units, such teams could handle the entirety - or part - of the matters of a given enterprise.

66. Conditions will be provided for selecting to the managerial staff the most talented people - those with adequate knowledge, skills, and attitudes.

New pay principles will be introduced for heads of socialized economic units, linking their salaries in a direct way to the economic performance and development of units run by them. In units capable of setting aside huge resources for development purposes, the income level of those heading them will differ substantially from average incomes earned in the national economy. This will also apply to managerial personnel at lower levels, within the enterprise in question. There is a need for keeping an adequate managerial-pay hierarchy within enterprises - to provide stability for the managerial personnel, which should combine entrepreneurial skills with deep commitment to the company.

In addition, in order to stabilize the managerial personnel and enable managers to pursue an effective strategy of changes, possibilities will be provided for a broader application of fix-time labor contracts [for managers].

67. In order to develop entrepreneurial qualities of managers, a national system should be created to select, train, and upgrade the greatest managerial talents. At present, running an enterprise requires more and more expertise and knowledge of managerial techniques, economic laws, legal regulations, and social and political matters.

The training of candidates for managerial posts and the upgrading of managers requires durable cooperation from universities and managerial training institutes. There is a need for the restoration of the system of managerial cadres upgrading - at the central, ministerial, and regional levels.

68. In the system of managerial staff assessment - both as regards formal assessments and public appraisals - the following criteria should come to the fore: the economic performance of the enterprise, its capacity to generate economic surplus for development purposes, readiness to embark on new, risky ventures, and commercialization of R&D findings.

69. The legal autonomy of economic organizations and of self-management bodies - as a basis for entrepreneurship - also requires some changes in the relationships between society and its representative bodies on the one hand and bodies of the enterprise [director, self-management body] on the other.

The establishment of competent social inspection bodies should be speeded up - to subject to substantive control the operations of enterprises, and especially those enjoying fully or partly monopolistic positions. As things stand at present, all problems concerning current functioning of the market, services, or technological progress are being tackled in the society-vs-state-administration context.

Entrepreneurship at economic units must transcend their bounds - covering marketing problems, the shaping of social environment, etc.

#### Developing Self-Managements

70. The concept of worker self-management has proved its worth over the five years of the operation of the economic reform. It has promoted broader participation of the working class - of all employees of state enterprises - in the running of the economy, and has been conducive to developing a sense of responsibility for the effects of economic activity. The durability of self-management orientation should constitute an important feature of the socialist system.

This is connected with the need for measures which would stimulate further development of worker self-management and help overcome barriers to this development.

The discarding of bureaucratic and technocratic habits should be conducive to self-management bodies' activities aimed at integrating the workforce around the implementation of ever more difficult tasks, providing proper atmosphere for efficiency, honest work, and initiative, and combining the interests of the workforce with those of the community.

Worker self-management is a social force which should play a much greater part in generating public support for the program of qualitative changes in the functioning of the economy.

This should be served by:

(1) systemic measures, designed to deepen the principles of enterprise autonomy and self-financing, and to stabilize the rules of the economic game;

(2) socio-political measures aimed at a fuller tapping of worker councils' powers and fuller realization of the statutory model of partnership relations between self-management bodies and the enterprise director;

(3) continuous assistance to self-management bodies in cadres training, legal consultancy, popularization of experiences, and research activity (here, an inspiring and coordinating role should be played by the Center for Self-Management Studies, set up by the Council of State);

(4) the deepening of ties between worker councils and the workforce - the former should provide broader information for employees, and should consult them, and seek their support, on the most important matters of the enterprises.

If the relations between the direct and worker self-management are to be based on the principle of partnership, the following will be required:

from the director:

- \* to regularly inform the workforce and self-management bodies about the situation of the enterprise, and about the implementation of self-management resolutions;

- \* to honestly present the consequences - for the enterprise and for the national economy - of various alternative variants of proposed decisions;

- \* to help consolidate the position of worker self-management, and to support its initiatives on matters concerning the enterprise;

from self-management bodies:

- \* to support the director's measures aimed at the best utilization of enterprise capacity, at effective management, and proper selection of managerial personnel; support measures designed to strengthen work discipline, increase productivity of labor, and improve occupational safety.

Raising the status of worker self-management is inseparably connected with strengthening the position of the director and promoting entrepreneurship among the managerial staff - in conditions of further consolidation of the position of the enterprise in the national economic system.

71. Greater efficacy of self-management activities targeted at higher efficiency at enterprises is closely linked to the development of the system of labor teams. The experiments conducted in recent years indicate that the labor-team system, operating on the basis of contracts signed with management, offers opportunities for major increase in output and labor productivity.



In developing the labor-team system, the principle of voluntary access should be observed in full. Also, material incentives should be provided for management, engineering staff, and back-up services, so as to stimulate better organization and uninterrupted operation of the enterprise, which is inseparable, linked to the development of the labor-team system.

72. The system of labor teams offers conditions for an accelerated development of the country - owing to its following advantages:

(1) The system requires entrepreneurial qualities from the managerial personnel. In a way, it enforces initiative "at the top" in addition to initiative "at the bottom."

It makes possible a merger of the "managerial concept", placing emphasis on the entrepreneurship of the director, with the self-management concept, oriented to grassroots initiative of the workforce.

(2) The system deepens the present concept of worker self-management and ensures closer links between self-management bodies and the entirety of the workforce - by enriching the present forms of indirect democracy (worker councils) with the forms of direct democracy within the labor teams.

(3) The system makes possible fuller implementation of the principle of social justice - by linking pay growth more closely to the growth of labor productivity. Labor team members have a say on the division of aggregate pay, taking into account individual members' real inputs of labor.

In this way, more favorable conditions for implementing a major principle of the economic reform will be provided - without resorting to administrative coercion.

73. Conditions will be provided for developing the system of labor teams involving financial independence of the teams. Labor law provisions will be changed, and collective labor-bargaining contracts will make it possible for enterprises to employ workers who will be paid minimum wage as a guaranteed pay, the final level of individual pay being set in accordance with the effects of the team's work and independent division by the team of the combined amount of pay it has earned.

The development of the labor-team system helps to reconcile the principle of self-management with emphasis on entrepreneurship and higher productivity.

74. Taking into account the experiences amassed in the course of the operation of the law on people's councils and local government, steps will be taken to broaden the functions and the extent of legal, organizational, and property-holding independence of local self-government bodies. This will mean their capacity to carry out public projects on their own behalf, and the right to dispose of municipal property.

The introduction of the notion of municipal property into the system of socialized property will be effected through a transfer of state property to local authorities which so far have only managed this property. This necessitates the passing of a law on municipal property (including municipal enterprises), which will provide a basis for the local authorities to expand and dispose of property.

The town and the gmina should be the principal local units, in their capacity as economic entities. Voivodship level bodies should only play supporting and coordinating roles - drawing on the existing legal instruments. The basic units should enjoy a right to establish institutions and municipal groupings, such as unions of towns or gminas, and to set up credit/finance institutions, such as municipal banks.

One line of action will be to cede to local authorities a growing number of enterprises, now overseen by central bodies and operating mainly in local markets. The character of this process will depend on which variant of proposed changes in parent-body functions is chosen.

75. People's councils' participation in incomes from socialized economic units settling their accounts with the state treasury will be broadened. It is desirable to grant local authorities a share in corporate income tax payments. The system of equalizing and special-purpose subsidies will be perfected. The principle should be observed that an improvement in a people's council's own revenues must not entail a reduction of its long-term quotas of special-purpose and equalizing subsidies. Also, the role of local taxes and surcharges should be increased - both as regards their amount and people's councils' authority to impose them. In this, new experiences from the 1987 authorization of people's councils to impose surcharges on the prices of tourist services and articles should be drawn upon.

## Self-Financing

76. The self-financing of enterprises provides the principal mechanism making possible current adjustment of the size and structure of enterprise output to the requirements of society, as reflected in the domestic market, and to the requirements of international markets.

The principle of self-financing can operate smoothly only in conditions of economic equilibrium, active role of prices (providing information about the current state of, and changes in, individual markets), and flows of financial resources among individual enterprises and sectors. This applies to all existing types of enterprises: state enterprises, cooperatives, mixed enterprises, commercial companies, and private firms.

The self-financing principle, understood as the capacity of an enterprise to cover its expenditures with its own money revenues, will constitute a condition for enterprise autonomy and - in the case of state enterprises - for the self-management of its workforce.

77. In effect of a determined enforcement of the self-financing principle, profit and profit rate will grow in importance in enterprise operations.

These two elements exert the greatest influence upon an enterprise's capacity to self-finance its current operations and development. They will be also key criteria in assessing enterprise performance and remunerating its management and workforce. This will help to increase enterprises' interest in cost reduction, savings of production factors, labor productivity growth, and technological change.

78. In controlling the economy, an increasingly important role will be assumed by financial instruments. When applying these instruments to control the behavior of economic entities, uniform principles will be applied. Two principal variants are possible in this field.

Variant I - reducing the amount of nominal taxation (corporate income tax, depreciation-fund division, contributions to the Foreign Debt Servicing Fund).

This variant would mean a curtailment of the nominal burden of corporate income tax and of contributions to the Foreign Debt Servicing, and the abandonment of depreciation fund division.

At the same time, it would be necessary to back out of automatic concessions in corporate income tax.

Subsidies to investment projects in the sphere of material production should also be discarded.

The main factor influencing the lines and structure of production would be the market - and especially an active price policy on prices and sales tax.

Auxiliary instruments would include legal and administrative instruments, such as inputs-consumption and quality standards and bans on the production and distribution of articles which fail to meet the standards. An important role would also be played by credit policy.

Variant II - maintaining the relatively high level of nominal taxation of enterprises.

This variant would mean the continuation of the present rate of corporate income tax, to be coupled with the division of the entirety of depreciation funds. The present complicated system of depreciation division, linking it to the character and manner of fixed assets financing, would be discarded. But the system of concessions in depreciation-fund payments to the Treasury, in accordance with the adopted line of investing, would be maintained.

Also, opportunities should be provided for authorizing enterprises - especially the exporting ones and those covered by restructuring programs - to apply flexible rates of depreciation division.

Consideration should also be given to the abandonment of contributions to the Foreign Debt Servicing Fund.

Under the discussed variant, a stable set of concessions in corporate income tax would be introduced - oriented to types of economic activity and reflecting structural policy preferences. The concessions should be granted on account of: exports, commercialization of R+D findings, savings of energy and raw materials, environmental protection quality improvement, development projects in areas covered by structural policy preferences. The system of subsidies should be oriented to particular kinds of economic activity rather than sectoral affiliation of a given unit.

Measures taken by enterprises in accordance with the concession-system preferences should result in major reduction of the real rate of enterprise taxation.

79. Both variants of the system of enterprise control call for the elimination of various kinds of centralized,



special-purpose funds, whether created from treasury or non-treasury resources. Where it is desirable [for the state] to actively participate in decision-making on development, by means of providing additional funding, the institution of specialist banks (whether state-owned or organized as joint-stocks companies) should be drawn upon. A first step in this direction has already been made, with the establishment of the Export Development Bank (BRE).

Also, accounts for compensatory settlements [surcharges on the more efficient, aid to less efficient - ed.] in individual industries will be liquidated.

80. The financial system of enterprises should be transformed, to reflect the growing economic and financial autonomy of enterprises, and the growing role played by financial instruments in controlling the economy. It is necessary to counter the tendency towards "pigeonholing" the finances of enterprises (i.e., towards creating separate funds in the financial system).

Under the State Enterprise Finances Act, four "principal" funds are created at enterprises - the statutory fund (divided into a portion financing fixed assets and a portion financing working assets), the reserve fund, the development fund, and the fund for technical/economic progress.

In their place, two funds should be introduced - the statutory assets fund and the enterprise operations fund.

The statutory fund would reflect the value of resources with which the enterprise has been endowed, and the value of financial-assets increment on account of state aid from the treasury (investment subsidy) or from a treasury-sponsored special-purpose fund. The fund should not be reduced on account of depreciation. Instead, it should be increased in proportion to the revaluation of inventories or fixed assets. Opportunities for undertaking a liability guaranteed by a portion of enterprise assets financed by this fund should be restricted. The value of the fund should represent the enterprise's standing commitment to the state treasury.

The enterprise fund would reflect the portion of enterprise property generated in effect of operations of the enterprise. The fund would be created from depreciation allowances, the portion of the profit earmarked for development purpose, etc. It would be reduced by the equivalent of depreciation, and it would finance possible losses. In respect to that portion of its property, the

enterprise should enjoy full freedom to incur liabilities, enter into joint ventures, commercial companies, etc.

81. The change in the design of principal funds of the state enterprise would simplify the system of enterprise finances, and would bring it closer to systems applied in other organizational form, such as cooperatives, commercial companies, R&D establishments, etc.

In this connection, consideration should be given to changes in the manner of issuing financial regulations. The present arrangements, based on the State Enterprise Finances Act, make the legal system highly complicated, since it is necessary to issue separate rules for individual organizational forms - even when general systemic arrangements are identical.

Recently, some problems have been tackled by means of adding new provisions to regulations on corporate income tax which are applicable to all units of the socialized sectors (e.g., division of depreciation).

In the future, the provisions regulating the principal funds of the state enterprises should be incorporated into the State Enterprise Act. This is also justified by the importance of these matters for the enterprise and its autonomy.

In respect to other questions, the relevant financial rules should be provided - in a comprehensive way, for the whole socialized sector - in regulations on corporate income tax. The changes in the enterprise finances system, discussed above, could be introduced in 1989-1990.

82. In areas marked by diversified natural conditions, such as mining or agricultural production, the tax system will take into account the notion of rent. Changed in this direction will be land tax in agriculture; and in mining, a surcharge on mined deposits will be imposed.

83. On the basis of the already existing legislation which permits the establishment of insurance institutions, a system of economic insurance will be created. Enterprises will be allowed to insure themselves - on a voluntary basis - against civil-law responsibilities arising from damage-repair obligations. In particular, this concerns situations where an enterprise is contracted to carry out projects of high value and with high risks involved (design work, shipment of untypical equipment, construction/assembly operations, etc.)

This will be a major element protecting enterprises' self-financing capacity in conditions of risks involved in embarking on new, and especially innovative, projects.

84. If the self-financing principle is to be implemented consistently, changes must be made in the system of money settlements between enterprises. The practice under which receipts obtained after the end of a year (now, up to January 25 of next year) are counted towards the enterprise's sales revenue should be phased out, and replaced with the practice of counting as revenue only the effective receipts in a given period. Two variants are possible here.

Variant I - gradual shortening of the period in which receipts are counted as sales revenue despite the end of the year (e.g., Jan. 15, Jan. 8, Dec. 31).

Variant II - one-shot change, after which sales revenue would include only the receipts obtained prior to December 31 of a given year.

This should be accompanied by the principle that an enterprise's incapacity to meet its obligations on time is a sufficient reason for the supplier to break the contract - no matter how this contract has been concluded (government order, pre-emptive purchase, mandatory wholesaling) - and gives a right to freely utilize the production capacity and the inventories released in this way.

85. Work will be started on modernizing the tax system. The goal is to introduce value added tax (in the early 1990s), which would replace the present sales tax. Value added tax would make the present system of sales tax much more simplified.

The introduction of value added tax would mean the realization of the idea of a tax system which is general, relatively uniform (uniform tax rates), price-forming, and percentagewise. In accordance with the principles of value added taxation, this tax would be paid by all enterprises in proportion to their net turnover,

In calculating the tax obligation of a given enterprise, one of the following two methods could be applied:

- \* deducting from the amount of the tax payer's sales revenue the equivalent of expenditures on purchases in the period under review;
- \* deducting from the amount of tax calculated in proportion to sales revenue the equivalent of tax paid in the prices of goods and services purchased by the enterprise.

The deduction of the tax paid at earlier stages of processing from the amount of tax required from a given enterprise is an important feature of the VAT system, making possible a simple and certain elimination of multiple taxation without a need for complicated division of output into a portion going for further processing and a portion for consumption. At the same time, it would enable effective tax refunds for exporters, reflecting export-oriented preferences.

In switching to value added taxation, thought should be given to the purposefulness of getting rid of payroll tax, which would simplify the tax system (although at the same time reducing the costs of labor employment at enterprises).

Value added tax would require a uniform rate throughout the whole of distributive activity - with exporters assigned zero rate. If the rates were to be diversified, there should be no more than two or three rates. In respect to goods now levied with a high sales tax (acting as an excise duty), such as alcoholic beverages, cigarettes, or petrol, an additional tax should be introduced. This should not be difficult, considering the small number of such goods and the specific features of their distribution.

Another reason why work on value added tax should be started is the development - in the longer run - of direct cooperation between enterprises in CMEA countries. This will require the resolving of price-and-exchange-rate problems including the unification of pricing systems. It may be noted that work on the introduction of value added tax has already been initiated in Hungary.

### Banking System

86. The main tasks for the banks are: to strengthen the currency, to actively influence economic equilibrium through monetary/credit policy, and to promote productivity growth and structural change. Banks' organizational systems and operating methods should be subordinated to these goals.

87. Measures aimed at enhancing the role of the National Bank of Poland, as a central bank actively participating in designing and implementing the state's economic policy, should be continued. Conditions should be provided for a correct discharging by the NBP of the functions of an issuing bank, responsible for the circulation of the money and monetary policy.



Tendencies towards increasing the supply of money and credit beyond economically warranted limits should be opposed firmly. In particular, the entirety of relationships between the budget and the credit plan should be set in order.

While discharging the functions of a central bank, the National Bank of Poland should continue to provide credit directly to principal sectors of the national economy. The extent of direct crediting by the NBP will be narrowed in step with the [improvement of] economic situation and development of the banking system.

88. The banking system should be so developed as to ensure:

(a) partnership relations between the bank and the enterprise (enterprises should be allowed to choose banks);

(b) the application of the self-financing criterion to the operations of the banks - up to the risk of bankruptcy (the goal is to orientate banks strongly towards efficiency);

(c) the autonomy of the banking system (this is necessary in order to pursue an effective monetary policy and to counter pressures on the banking system for an inflated supply of the money).

89. Work on the separation of the PKO savings branch from the National Bank of Poland should be speeded up. The possibility of establishing several regional banks - to compete with each other and with the established banks - should be urgently considered.

As new requirements will arise, more banks will be created, taking the form of joint-stock companies, cooperatives, and state-owned banks. The banks should compete with each other, which means that there should be no rigid restrictions on the establishment of banks and on the extent of their operations.

In establishing new banks, experiences of the Export Development Bank should be drawn upon. In the initial period, these banks should be in the form of joint-stock companies, with the participation of the National Bank of Poland and with the use of state capital. They should not confine their operations to exclusive servicing of particular sectors.

90. The efficiency requirements upon the operations of commercial banks will be set, on the one hand, by the basic rate of interest charged by the central bank on refinancing credits and, on the other, by the interest rate on enterprises' deposits in a commercial bank. In accordance with the self-financing principle, banks will have to cover their operating costs with the difference between incomes from interest fees on credit and interest costs of refinancing credit and deposits of enterprises.

91. In step with the development of the banking system, it will be necessary to introduce effective methods of the central bank's economic control of commercial banks. It is planned that commercial banks will have to place a portion of their resources with the central bank - on a mandatory basis. This is essential for an effective credit policy, control of money supply, and for basing the operation of the banking system upon economic foundations.

Methods and tools of the central bank's control of the banking system should be developed so as to ensure that the latter operates in accordance with the monetary/credit policy goals and with the credit plan.

92. Interest rates on bank credit and on time deposits held in banks by enterprises, households, and private traders will be set at levels ensuring the real value of deposits and debts. Within the limits set by the central guidelines for monetary/credit policy, banks will differentiate interest rates on loans and deposits in accordance with:

- \* the banking risks involved;
- \* the maturity of loans and duration of deposits;
- \* the goals and purposes of crediting, as seen from the standpoint of national economic and social policy.

93. The relations between the enterprise and the bank should rest on the principles of partnership and economic benefit. The development of the structure of the banking system should make it possible for socialized enterprises to choose a bank for handling its basic accounts. In their crediting activity, banks will follow the criterion of durable creditworthiness which defines, in a comprehensive manner, an enterprise's capacity to self-finance on the basis of healthy economic activity.

Banks will provide favorable credit terms for efficient enterprises, and will help those showing the will, and taking steps, to restore efficiency. In respect to inefficient enterprises, banks will withdraw credit and will apply statutory rigors with determination. Banks will also render, and develop, consultancy services for enterprises.

#### Wage System

94. The central pay policy under the second stage of the reform will be pursued with the help of the following instruments:

- \* principles of wage-fund formation in the sphere of material production;
- \* uniform principles for linking the amount of wage funds in the non-trading sphere to wages in the sphere of material production;

- \* the setting of the lowest pay in the socialized sector of the economy, and its partial indexation to offset the growth of prices (excluding the prices of alcoholic beverages and tobacco products);
- \* the setting of pay patterns and differentials - with the help of job-evaluation and synthetic pay-assessment methods;
- \* uniform, progressive tax on personal incomes - whether earned in the socialized or in the private sector.

By drawing on these instruments of central pay policy, the central administration will set a general framework for pay policy - to be later disaggregated at work establishments with the help of enterprise wage system and collective labor agreements.

This will make it possible to link the level and growth rate of wages to the economic performance of enterprises and other economic units, while at the same time ensuring the autonomy of enterprises and the influence of trade unions and self-management bodies on individual pay levels.

95. If these principles of pay policy are to be implemented, the following three elements should be separated in enterprises' motivational systems:

- \* individual basic pay and regular benefits (e.g., seniority pay, hardship allowances, night-shift pay, etc.);
- \* changing elements of pay (bonuses and awards) linked to economic results;
- \* the collective consumption fund (welfare fund and housing fund, to be formed in accordance with the legislation now in force).

In accordance with the law on Labor Code amendments, the minimum levels of individual basic pay and fixed pay components is set in collective labor agreements. The basis for this will be provided by results of the (centrally-promoted) uniform analytical method of job evaluation. The rates of basic pay and fixed components set in enterprise wage systems may be higher than the minimum level, but must comply with the requirements of self-financing.

Upon the conclusion of new agreements (between management and trade unions) on enterprise wage systems, the amount of basic wages and fixed pay components defined in these systems should not exceed the equivalent of 75-80% of all funds for pay purposes. This should become a statutory principle (to be included into the planned

assessment to the law on enterprise wage systems). The other portion of wages should consist of variable components - bonuses and awards linked to enterprises' economic performance and distributed in accordance with economic criteria.

The amount of net-profit deductions for variable pay components is set by the rules of worker self-management.

96. For enterprise wage systems to produce motivational effects, the principle should be observed that pay growth comes as a result of improved economic performance of an enterprise, and that a deterioration of economic results is followed by the reduction of some pay components. To put this principle into practice, it will have to be regulated statutorily (in the law on enterprise wage systems or the law on financial recovery and bankruptcy of enterprises) that after instituting the internal reorganization proceedings, as provided for under the bankruptcy law, the following steps will be taken in succession:

- (a) temporary suspension of workers' rights to concessions in kind and other allowances in kind, and to financial equivalents for these allowances;
- (b) reduction of base-pay and fixed-component rates to minimum levels set in enterprise tables;
- (c) reduction of basic-pay rates to minimum levels set in the relevant collective labor agreement.

97. Some elements of the target system of wages have already been provided in the course of the implementation of the reform. They include the mechanism for basic-pay formation and indexation, the legal foundations for concluding collective labor agreements, and the unified methodology for job evaluation, as a tool for designing job description tables and minimum-pay scales. Important experience has been amassed in the course of designing enterprise wage systems and in the course of their operation.

98. In step with the restoration of economic equilibrium, the target system of wages will be put into practice by means of:

- \* switching to those formulas of tax on inflated wage growth which are decoupled from production measurements (and linked to productivity);
- \* adjusting enterprise wage systems to the above mentioned principles and to the previously concluded collective labor agreements;



\* introducing uniform tax on personal incomes, replacing wage tax and personal-income equalizing tax;

\* defining uniform principles of shaping pay funds in the sphere of non-trading institutions financed by the Treasury.

99. In specific sectors, such as railways, communications, power generation or municipal services, where official prices are charged and where it is difficult to determine a linkage between labor productivity growth and economic performance, enterprises and other units will apply - on a mandatory basis - the fixed-threshold formula of wage-fund formation, taking into account the effects of price movements.

The collective consumption funds in these units will be formed in accordance with the general principles.

100. General tax on personal incomes will provide an instrument of policy on wages and incomes. Subject to taxation will be incomes in the form of wages earned at socialized-sector units, retirement and disability pensions, incomes earned as a result of work in private economic units, and incomes from artisan activity, distribution, and other kinds of activity.

The tax will be uniform and progressive - irrespective of the source and type of incomes.

Three variants of the design of the tax are possible:

#### Variant 1

The tax is paid by all citizens earning incomes from any source. Incomes lower than the average pay in the socialized sector of the economy are taxed only symbolically, while incomes higher than average pay are taxed progressively (in the range between the average pay and, e.g., three times its equivalent, the progression would be mild, but in higher brackets it would be steeper).

This variant is marked by:

(a) general character - all incomes of all citizens are liable to tax;

(b) uniform principles - incomes from any source are subject to the same tax principles;

(c) simplicity - the amount of tax to be paid by any tax-payer can be easily computed.

The amount of tax will be determined on the basis of tax declarations, to be filed by every citizen.

#### Variant II

Under this variant, the tax is paid only by people exceeding some income level - e.g., the average pay or any other level.

This limits the number of tax-payers, in accordance with the adopted threshold, and consequently makes the tax less general (it could then be perceived by the public as a modified personal-income equalization tax). The remaining problem could be tackled under the second variant in the same way as under the first one.

The introduction of a general tax on personal incomes requires that the following problems be resolved:

(a) The extent of the tax - and especially the problem of taxing incomes earned from agricultural activity.

In a nutshell, the question is whether private farmer incomes should be taxed according to general principles (excluding the incomes earmarked for production and investment purposes) or perhaps according to separate rules.

(b) The scale of taxation in three major groups:

- (1) incomes lower than the average pay in the socialized sector of the economy;
- (2) incomes in the range between the average pay and, e.g., three times its equivalent;
- (3) incomes exceeding the equivalent of three times the average pay.

(c) The procedure of tax collection.

Should the tax be collected once a year on the basis of a tax-payer's declaration, or perhaps in monthly or quarterly installments, paid in advance and finally settled at the end of the year? Another option is to pay monthly installments on fixed incomes, and to make final annual settlements on the basis of tax-payer declaration.

#### Variant III

In this variant, taxation is based on personal expenditure. The tax base would be provided by a tax-payer's incomes

earned in a given year and adjusted for the balance of changes in his or her savings accounts. This would provide encouragement to save, and especially so if expenditures on housing etc. were excluded from the tax base.

In all variants, the tax declaration would assume key importance, having the character of a financial statement and involving material responsibility for failure to declare the actual state of affairs.

#### Right To Work, Labor Relations, Working Conditions

101. The introduction of the second stage of the reform will be conducive to further rationalization of employment and manpower-resources management. The size and structure of employment will be determined by autonomous enterprises, guided by the criteria of economic rationality. The processes of structural change, going on in the economy, will necessitate changes in the structure of employment. Enterprises' moves to eliminate irrational employment will be carried out in respect of the Constitutional right to work. But the Constitutional right to work must not mean a right to work in a given post, enterprise, or trade for life.

Responsibility for the observance of the Constitutional right to work should rest with state bodies. On the basis of National Labor Redeployment Fund (FFAZ) resources, a system of labor consultancy, exchange, retraining, and funding for the temporarily unemployed will be created. In cases warranted by important social considerations, state bodies will be authorized to create a certain number of jobs for some groups of employees, such as the disabled or the old. Enterprises would then receive funds from the PFAZ.

More efficient use should be made of the potential of graduates from schools of various types. The educational doctrine must be changed, and in particular it is necessary to organize traineeship schemes and qualification exams more efficiently and in a more up-to-date manner.

102. The economic reform warrants the continuation of the already started changes in the labor law.

Legal mechanisms will be provided to stimulate higher productivity of labor, facilitate the rationalization of employment, and enhance economic activeness. This will require adequate changes in regulations on labor contracts, their contents and discontinuation procedures, and in regulations on additional employment.

In particular, these changes will have to do with:

- the employee's right to discontinue the contract of labor at notice (e.g. one month), while retaining all employee rights;

- the right of the work establishment to discontinue the labor contract at notice (e.g., three months) without the need to state causes (the employee would then retain all his or her rights);

- the right of the enterprise to seek compensation - under civil-law procedures - from an employee who has abandoned work;

- the restriction of the group of employees protected against termination of employment exclusively to members of worker councils and trade unions' committees, social inspectors of labor, and employees two years before retirement;

- the right of the work establishment to discontinue the labor contract at shorter-than-statutory notice (e.g., one month) in the case of internal reorganization proceedings, also in respect to protected employees;

- the right of the work establishment to change the terms of pay and employment, with the proviso that the new terms must not be worse than the minimum standards set in the relevant collective labor agreement.

101. The rationalization of employment and the more flexible and fuller utilization of manpower resources will require that enterprises draw on various forms of labor contracts (not only the regular labor contract, but also job contract, etc). Conditions for this will be provided by extending general social insurance to cover those concerned.

104. Systematic measures will be taken to improve working conditions and safety. In the period to 1990, these measures will consist, in particular, in:

- applying proper technical and organizational means;

- mechanizing and automating the work posts posing the greatest health hazards;

- expanding research into, and measurement of, health and other hazards at enterprises and work posts;

- ensuring full equipment of employees with means of personal protection, and improving the quality of these means;



\* tightening up periodic health checks, especially for those threatened with health hazards;

\* introducing more stringent sanctions against management teams failing to provide healthy and safe working conditions where it is possible to provide such conditions, and against employees failing to observe occupational safety rules.

Investment projects serving an improvement in occupational safety and health will be carried out.

Such projects will be encouraged by economic instruments - exemption from depreciation-fund payments to the Treasury, concessions in corporate income tax, preferential credit terms, and even state subsidy in cases involving special threats to employees' health or life.

### Welfare And Social Services

105. Social policy covers areas which are important both for the economy and the community, including its individual members. Linked directly to the economic reform are policies on employment and pay. Other areas - social security, health protection, and culture - are connected with the reform indirectly. Transformation of these areas is necessitated not only by economic factors, yet the country's economic potential must not be ignored when designing this transformation.

106. Social security involves benefits for the whole lifetime, from birth to death - such as benefits connected with the birth and upbringing of children; sick pay; medical, occupational, and social rehabilitation of working people; and retirement and disability pensions. Individual segments of the social security system need reform, so as to eliminate waste and make the whole system coherent and logical. In this context, functions to be played by each type of benefit should be specified, and conditions for discharging these functions should be provided.

107. The system of social security can be transformed towards its universality, with benefits arising from the very fact of insuring oneself. This will require changes in the principles of social security financing - to specify separate contributions for individual types of insurance (pension, sick pay, family allowance, etc.) and to specify the participation of individual entities (citizen, employer, state) in the expenditures. The set-up of insurance institutions would then have to be changed accordingly.

108. The system of retirement pensions will be transformed towards a greater impact of seniority upon the amount of benefits. It is also necessary to retain the mechanism of pensions indexation, in relation to wage growth. The state's guarantees for retirement and disability insurance should be provided up to some limit. For example, an upper pay limit can be set as a basis for calculating the amount of insurance contribution and, consequently, for the amount of pension. The amount of pay above that limit should be subject to supplementary insurance on a voluntary basis. The pay limit for mandatory insurance should be adjusted annually - preferably by linking it to average pay. State guarantees for other segments of social insurance could also be introduced (on a parametric basis).

109. The state will show concern for the living standards of young families - among other things, by providing conditions for parents' taking care of children, and through social welfare devices. It is purposeful to retain the child-care leave and related benefits. As shown by the experience of other socialist countries, child-care leaves and benefits make possible savings in other areas (nursing allowances, sick pay, kindergartens, nurseries).

It is also necessary to provide special forms of employment for young mothers.

110. Separate arrangements are needed for the system of social insurance for farmers. Future changes should take into account the differences in living and working conditions between town and country. Some money benefits can be replaced with concessions in kind - provided that the social-welfare infrastructure is expanded, mostly for children and the old (nurseries, kindergartens, welfare institutions for old people ceding their farms to the state).

111. The goal of improving the quality of social services and meeting the demand for them to a greater degree will be sought through:

- \* spending from the State Treasury;
- \* the population's participation in the financing of the sphere of social services, coupled with economic incentives to use these services rationally;
- \* incentives to improve the efficiency with which the funds earmarked for social services are being spent.

This will be accompanied by continued transformation of economic/organizational systems in the sphere of social

services, to make sure that the drive to use the available resources more efficiently does not collide with the search for attaining social goals.

112. In order to meet the demand for social services to a higher degree, changes have to be made in the way this sphere is funded. From the standpoint of the sources of funding, three groups of social services can be distinguished:

- (a) services financed wholly by the state treasury;
- (b) services financed by the central and local authorities, by the population, and by enterprises;
- (c) services rendered on a commercial basis, i.e., fully paid by customers - with possible concessions and rebates for some groups of the population.

In financing the first-group services, the amounts of funds earmarked for each segment of social services should be mutually interrelated, on a parametric basis, and they should be set annually in budget laws.

113. As regards services financed by the treasury, the population, and enterprises, two variants are possible:

#### Variant I

The amount of Treasury funds would be set - as a lump sum, or on a parametric basis - and funds provided by the population and by enterprises would be treated as supplementary. The global amount of funding would be a function of these factors.

#### Variant II

Funds from individual sources would be provided according to a set pattern. Thus, the national plan target concerning the necessary amount of funds for this group of services would indirectly set disaggregated targets for individual sources of funding.

Under this model, individual types of services would have to be assigned to one of the above mentioned three groups.

114. Changes in the system of financing the sphere of social services will be accompanied by measures serving an efficient utilization of the available funds. Full cost accounting will be introduced in social-services

institutions - taking into account the depreciation of fixed assets and all other elements of costs.

In the health care sector, partial payment for some services will be introduced. Economic and organizational measures will be taken to stimulate more efficient utilization of the sector's potential.

115. The educational units - in view of the free-of-charge character of their services - will continue to be financed by the treasury. But the budget planning procedures will be rationalized. As a principal condition for this rationalization, the present procedure of budget planning on the basis of budget implementation in the previous year should be replaced with the planning of needs, with account taken for normative costs of individual types of activity.

116. In the sphere of culture, second-stage work will center of perfecting the already provided legal and organizational order. Legal foundations will be provided for stable inflow of funds and for new methods of financing cultural institutions.

As far as the socialization of cultural policy is concerned, the conditions for, and methods of, cooperation between state administrative bodies and social representations of artists and the public will be specified in full.

How the financial system will be modified will depend on the specific features of a particular kind of cultural activity and on the adopted methods of financing. In this context, it will be necessary to delineate those "areas" of cultural activity which function on a commercial basis, those which are financed exclusively by the treasury, and those which are financed partly by the treasury and partly by the population.

117. In the tourism and recreation sector, the activity of all organizations will be based on the principle of self-financing. The state's control of this sphere will be effected primarily through financial instruments, especially taxes and subsidies.

One major goal will be to provide conditions for the competitiveness of organizations operating in the tourist market. This requires that official and regulated prices should be wholly discarded in favor of contractual prices, that bureaucratic barriers restricting various organizations' access to some lines of activity should be removed, and that



monopolistic practices (including restrictions on intermediaries) should be opposed.

### Institutional And Organizational Structures

118. In order to deepen the socialist character of the Polish economy, improve its performance, and perfect social conditions for this, further changes have to be made in the institutional system. This applies both to the political organizations and to all bodies of state administration - to their set-ups, powers, duties, and responsibilities.

The principles according to which political organizations, trade unions, and representative bodies develop their relations in the process of designing economic policy and systemic arrangements will be perfected. The powers, duties, and responsibilities should be strictly delineated, in accordance with the changing principles of the functioning of the economy.

It is also necessary to specify in greater detail the increased role and position of social bodies in the system of functioning of bodies of state authority and administration. These problems are tackled by the Party and Government Commission for the Review and Modernization of Organizational Structures in the Economy and the State.

119. In the system of controlling the economy, it is very important to specify the relation between state administrative bodies and enterprises.

As perceived by the public, the state administrative bodies have borne full responsibility for enterprises' current production operations and for any short-term changes in supply. Representative bodies, social institutions, and the public at large expected [from state bodies], and especially from vertical/sectoral ministries, quick action and interference in the activity of enterprises. In doing this, the ministries drew primarily on their parent-body powers. In effect, a feedback relationship developed, as reflected in the consolidation of the partition of the economy along sectoral lines, expansion of more or less formal rationing, and consequently in weakening impact of efficiency-oriented mechanisms upon enterprises.

In these circumstances, the ministries' functions as representatives of their respective sectors and enterprises (providing technical and economic conditions for their current operations) began to overshadow the functions of state supervision over the lines and conditions of development.

of individual sectors, from the viewpoint of long term interest of society and state. As a result, these ministries' supervision over the observance of state standards and of the organizational and legal order is insufficient. This function is as a rule performed by administrative bodies, such as PKNiM [standardization], UDT, or WUG, whose position in the Center is weaker than that of ministries.

It will not be easy to solve this problem, as it would be wrong to expect quick, smooth changes in public consciousness or in the habit, shaped by forty-year practice, of treating administrative bodies as responsible for all economic problems, even those of minute, short-term importance.

Progress in this field will also depend on the direction of changes in the character and sectoral ministries' functions and the way these functions are discharged, including the discharging of the function of parent body.

120. Changes will be introduced in the manner of performing the parent-body functions. On this issue, two variants are presented.

#### Variant I

The extent of supervision and parent-body functions performed by central bodies of state administration will be limited - by ceding a large portion of small and medium-sized enterprises, especially those supplying local needs, to local administrative bodies. Only in respect to enterprises of special importance for the national economy should the central bodies of state administration continue to act as parent bodies.

To this end, it will be necessary to work out the concept of the performing of parent-body functions by local bodies of state administration - to be closely connected with the introduction of the notion of municipal property to the system of socialized property, and with the administration's duty to improve the servicing of the population.

The following areas should be excluded from the list of parent body functions - whether performed by the central or local bodies of state administration - and turned over to other state bodies:

- \* inspection and auditing;
- \* health and safety protection;

- \* fire protection;
- \* pay policy
- \* the rationing of foreign exchange and material resources, tied to the implementation of government-order schemes and operational programs.

#### Variant II

This variant provides for abandoning the existing model of organization of state supervision over the activity of state enterprises. In effect, the institution of parent body would have to disappear, and the special relations between administrative bodies and enterprises would come to an end. The mechanism for state-enterprise establishment and supervision, provided in their place, would be based on the principal of capital participation.

The Council of Ministers would then set up state banks to act as institutions authorized to contribute state treasury shares to newly-created or already existing enterprises. The operations of these banks would be based on state treasury placements, equalling the amount of enterprises' statutory funds on the day of switching to the new principles. At the same time, the value of these funds would constitute banks' share in the stock of state enterprises. This share could be separated from the [now proposed] statutory assets fund - which would correspond to the principle of dividing enterprise property into a separate portion [endowed by the state] and a portion generated in the course of enterprise operations. The latter portion would form the enterprise operations' fund. For this proposal to be put into practice, changes would have to be made in the existing system of financial funds at enterprises.

The establishment of an enterprise would take the form of a contract between the bank and the newly created firm, specifying the amount of [the bank's] state, the kind of operations for which it can be used, and the size of interest fees which the enterprise should pay to the bank.

The establishment of an enterprise could be initiated by state administrative bodies, social organizations, institutions, and also by groups of people (e.g., inventors - by submitting to the bank draft documents on the set-up and operations of the enterprise, the expected economic effects, and particularly the level of the interest rate which the bank would receive on account of its share in the enterprise's capital stock.

One possible option is to set up two to three national banks and several regional banks, to be dealing with the establishment of municipal and housing enterprises, small businesses, local industrial, construction, and distributive firms, etc. Regional banks could take the form of, e.g., joint-stock banks, with shares from one national bank and the interested people's councils.

The operations of the enterprise would be governed by the existing provisions of laws on state enterprises and worker self-management.

State administrative bodies would be authorized to set up enterprises directly - in the form of commercial - law companies with state treasury shares. This organizational form should be applied mainly in respect to large infrastructural enterprises, operating in mining, power generation, metal manufacture, oil refining, etc. Workers' participation in the running of these companies would be effected through the presence of worker councils' representative on supervisory boards. This would be possible after some changes in the provisions of the Code of Commerce. But the discussed concept requires further studies.

If the second variant is chosen, it could be implemented in two stages. Prior to 1990, the proposed enterprise-establishment procedure could be applied in respect to small and medium-sized enterprises operating in balanced markets and currently having as parent bodies central bodies of state administration. This would relieve the latter of the discharging of parent-body functions.

121. In step with changes in the extent and character of the discharging of parent-body functions, changes will be introduced to the structure and functions of sectoral (vertical) ministries.

First, it will be possible to reduce the number of ministries and central offices of similar character;

Second, room will be provided for these ministries to act as agencies pursuing state policy in their respective areas - in respect to all economic entities, whatever their ownership form, supervision procedures, etc. may be.

The functions to be performed by ministries should include:

\* setting standards - state and ministerial - in statutorily defined areas (e.g., plant operation standards, materials



consumption standards, quality standards) and controlling their observance;

- \* programming the development of individual areas, and in particular forecasting changes in markets and lines of scientific/technological progress;

- \* cooperating with functional (horizontal) bodies in designing economic controls;

- \* initiating and supporting R&D projects - by drawing on the system of R&D programs, government orders for R&D projects, and contracts on the commercialization of R&D findings and by initiating the establishment of new enterprises;

- \* setting the technical, organizational, and personnel-qualification requirements on technical/production activity in individual areas;

- \* setting the principles for organizing economic activity in individual areas; setting the requirements on technical documentation of production;

- \* organizing and conducting the certification of products and processes, introducing state quality-inspection services, issuing certificates on the acceptance of articles for production and distribution;

- \* issuing licenses for special kinds of operations, such as minerals mining, sea and air transport, etc.;

- \* supervising economic units as regards the observance of the law, e.g., the construction law, geological law, mining law, maritime law, etc. (each body will deal with the branch of law corresponding to its respective field, e.g., the Construction Ministry with the construction law);

- \* running specialist courses for managerial personnel; issuing certificates authorizing holders to discharge some functions or operate in some trades;

- \* within their legal powers, assigning to enterprises tasks related to national defence, natural calamities, international agreements, and government orders - in respect to any unit in the purview of a given ministry.

122. The operating principles of the Finance Ministry must be so defined as to reflect its much expanded functions (price policy, anti-monopoly activity) and the growing role of the financial system and financial regulators in controlling the economy.

The Finance Ministry will start work on improving the system of concessions and subsidies to economic units, on personal income tax, and on further improvement of the tax system (including work on value added tax).

Cost and price accounting should be improved, to make room for more refined forms of price control. Price policy should draw more widely on supply-and-demand projections for individual markets.

Cost accounting for public services, such as health care, culture, recreation will be improved, to make possible the assessment of individual benefits. It is necessary to switch from the system of subsidies to social-services institutions towards a system under which the treasury would buy particular services rendered by these institutions for individual citizens.

The state treasury's involvement in socio-economic policy will be increased.

The set-up of the Finance Ministry will be adjusted to enable this body to effectively perform the functions of the anti-monopoly agency. This set-up should prevent any possible internal tendencies towards the protection of monopolies (because of "easier" financial settlements with the treasury). Sophisticated computer techniques should be applied to improve the circulation of information within the tax apparatus, so as to provide an additional system of early information about the behavior of enterprises.

123. It is stated in the "Lines Of Economic Reform" that the central planning agency should act as a "think tank" for the Government, dealing with planning and analytical work. This assumption is correct. Accordingly, the preparatory procedures and the character of central annual plans will be changed. The extent of detailed physical targets will be narrowed, giving room for more forecasting information. Planning work will draw more extensively on elements of financial planning, as a basis for internal coordination of plans for the designing of coherent economic regulators.

The authority of the plan should be reinforced by what constitutes the essence of the socialization of planning, including the consultations with political forces, occupational communities, and the general public.

Analytical work will be developed, to provide a basis for projecting economic trends and enterprise

behavior. To this end, adequate methods of assessing economic units' operations - including methods of studying their sensitivity to the applied regulators - will have to be worked out.

Special importance will be assumed by methods of studying economic efficiency and structural change - in the national and world economy.

Very important will be work on planning methodology, necessary for working out plans of various types and on various levels. This methodology should help planning bodies to realize the principle of planned development of the socialist economy.

The Planning Commission, in its work, should take into account the need for creating a system of smooth flow of information about the economy, to be available at all levels of management. The information system will draw on various sources, including statistical data and reports, banking and financial analyses, and academic studies.

124. Changes will be made in the functioning of state administrative bodies. The main goal is to simplify the procedures involved in contacts between these bodies and citizens, to radically reduce the extent of paper work, and to eliminate the procedures under which citizens have to prove their honesty.

125. An all-round concept on improvement and adjustment of the operating modes of state administration will be presented by the Party and Government Commission for the Review of Organizational Structures in the Economy and the State.

126. The development of the economic system, the increase in state-enterprise autonomy, the coexistence of various organizational structures and forms of ownership, and the growth of economic interdependencies between various ownership sectors - all this requires a uniform system for settling disputes in the economy. The autonomy of the enterprise calls for a greater role of the law in settling these disputes.

At present, disputes among socialized economic units, disputes between bodies of the enterprise [director vs. self-management - ed.] or between these bodies on the one hand and state administrative bodies on the other are handled by the state arbitration commissions - and also by common courts and by the Supreme Administrative Court. The multitude of arbitrating bodies is hardly conducive

to the uniformity of verdicts. This state of affairs must be thoroughly analysed, and proper organizational arrangements, suiting the conditions in which the economy operates, should be chosen.

The following options can be considered:

(1) Modification of the procedures applied by arbitration commissions and their adjustment to the requirements of the reform.

(2) Establishment of economic courts, as special courts positioned outside the system of common courts.

Under this proposal, regional economic courts would act as courts of first instance and the Supreme Economic Court as the court of final instance. To ensure the uniformity of court rulings, an economic department should be established at the Supreme Court.

(3) Leaving economic disputes in the jurisdiction of common courts.

127. Work on the law on legislative procedures should be urgently continued and completed. This law should specify which state bodies, in what form, and to what extent are authorized to make law. It should also define procedures for planning legislative work and for preparing draft regulations. The urgency of the law on legislative procedures is closely connected with the formation of the Constitutional Tribunal; it is a condition for the Tribunal's effective influence upon the process of perfecting the law.

128. It is very important for enterprises, worker self-management bodies, and for state administrative bodies to obtain proper interpretation of the contents and purpose of the provisions of economic law. To ensure as great uniformity of interpretation as possible, the establishment of a center providing explanation and guidance to all those interested should be considered. Such a center could be affiliated to the Economic Reform Commission. It could comprise representatives of the Justice Minister and of the Legislative Council, experts of the Sejm's self-management commission, and invited lawyers and practitioners.



## Organizational Structures In Economic Activity\*

129. The organizational structures of the economy set the framework for economic activity by individual participants to the system of functioning of the economy, i.e., bodies of state authority and administration, social groups and individuals, social organizations, and economic organizations such as enterprises. In the system of functioning of the economy provided for in economic reform documents, emphasis is laid on providing conditions for horizontal flow of physical and financial resources, greater mobility of production factors, and quick and flexible adjustment of economic organizations to changing market conditions.

The drive to maximize economic surplus from the available national resources and entrepreneurship should be the main factors influencing the economic structure.

130. The course of economic development in the world, and especially in highly advanced countries, over the past several years shows that major changes have occurred in organizational structures - both at the level of national economies and their elements, i.e., enterprises and their groupings. Against this background, the organizational structures in economic activity should be marked by diversity of forms. There can be no universal model for structural arrangements.

The economy is a set of various coexisting forms - small and medium-sized enterprises along with large economic organizations: both integrated concerns aimed at embracing other firms, and loosely connected economic groupings centering on the implementation of some particular projects. These are either specialized economic units, benefiting from a far-reaching division of labor, or conglomerates seeking never-failing operations and independence from inefficient economic partners.

The point of departure for the development of organizational structures is provided by the world economy - not by a close domestic economy. In their operations, from the purchase of supplies to sale of end products, economic organizations should orientate themselves to the conditions prevailing in international markets, rather than the domestic yardsticks of efficiency.

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\* This chapter has been prepared jointly with the Secretariat of the Party and Government Commission for the Review of Organizational Structures in the Economy and the State.

131. Company-establishment initiatives constitute a major instrument for shaping the organizational structures in the economy. The formation of new units promotes structural adjustment and innovation in the economy. The financial and physical resources involved in such initiatives should mainly come from own resources of enterprises, cooperatives, or individuals, and from bank credit, to be granted only after careful studies of repayment chances. Company establishment initiatives will also be reinforced with resources tied up in disused or wrongly-used assets, and in assets of liquidated enterprises or enterprises in receivership.

Cottage industry schemes will be expanded, as will be the leasing of productive assets for nonfarm family businesses and for other forms of economic activity involving individuals' entrepreneurship and capital. In addition to small private and cooperative firms, a legal form should be provided for small state-owned enterprise, to be exempt from the obligation to run some services and to perform some auxiliary functions in respect to the employees.

Conditions should be provided for developing schemes within enterprises, especially in distribution, catering, small business, but also in some segments of construction and component production.

132. It is purposeful to move away from sectoral groupings of enterprises. Sectoral associations should be kept primarily in areas where mandatory associations have been established (or should be established) in response to some well-defined considerations and for specified periods. But the interested enterprises should be allowed to set up voluntary associations along vertical lines, linking enterprises involved in successive stages of production, capable to solve problems related to product quality, up-to-dateness of its components, and creation of some new generations of products, and standing chances of being transformed in the future into organizations with more integrated capital.

Some of the present associations, those which are really involved in production or service activity, should be reorganized into commercial-law companies and subjected to the rigors of efficiency and responsibility for undertaken obligations.

133. Different organizational forms will be required for economic organizations taking the form of indivisible

natural monopolies, and providing the infrastructure for the economy - railways; water ways; road and communications networks; production and distribution of electricity, natural gas, and coal; metal manufacture; and production of bulk chemicals. Their growth rate should be neutral and adjusted to the rate of economic growth in the whole national economy.

Responsibility for the development of infrastructural state monopolies, and for directions of this development, is everywhere borne by the state. This responsibility does not necessarily have to take the form of direct management by state administration. It may be reflected in other organizational forms, such as a holding company, managed by competent boards. But the management of infrastructural state monopolies should not be mixed with the function of government. In this respect, the government should represent supreme interests of the state and the community.

134. The organizational web of the economy will be filled with enterprises of varying sizes and different legal forms. In terms of enterprise size, the present structure is dominated by medium-sized enterprises - too small to make it in the international markets, but too large to be susceptible to domestic-market regulation or to innovate. On the legal plane, there is an absence of integration of different ownership sectors (with sporadic links confined to traditional contracts on trade), and there are no dynamic, fully-independent enterprises, as distant from the mass of passive firms, suitable only for the status of legally dependent units. Categories of strongly interrelated enterprises, with mutual links differing widely from links to others, have not developed.

135. The enterprise will be the principal economic entity. The process of establishing new enterprises - especially small-sized, innovative, and local ones - will be invigorated. Experience also testifies to the purposefulness of large, multi-plant enterprises, operating in selected sectors. But if they are to be efficient, conditions should be provided for far-reaching decentralization of management in these enterprises.

Consideration will be given to the introduction of legal arrangements for the autonomy of some internal units of multi-plant enterprises, enjoying the status of a legal person and the right to take economic decisions on all matters which are not reserved for the headquarters of the multi-plant enterprise and which involve obligations up to the equivalent of some portion of the statutory fund.

Also considered will be the provision of legal arrangements for enterprises to enter into industrial groupings (holding

companies) with only a portion, rather than the entirely, of the statutory fund - while retaining the status of a legal person and the right to act on their own behalf and on their own account (limited only by the list of matters assigned to the headquarters). Multi-plant enterprises and the looser forms of holding companies should be created, at the initiative of enterprises or banks, in all those branches of production where there is a chance for developing export specialties.

136. The holding companies should have the character of voluntary groupings of enterprises, set up as financial centers for the implementation of common development policy. They would be formed from portions of enterprise assets ceded to the new organization. The property of the holding company, so formed, would be treated as its shares in constituting enterprises. Revenue from these shares would provide a source of funding for development projects mounted by the holding company.

The holding company should have the status of a legal person and would be managed in a similar way as commercial companies.

The bodies of the holding company would include:

- \* the assembly of participants, i.e., representatives of the bodies of enterprises and other socialized units forming the holding company;
- \* the supervisory board, appointed by the assembly;
- \* board of directors, appointed by the supervisory board.

The principles of operation of the holding company and the powers of its bodies would be specified in an agreement between the participants. In the case of state enterprises, the entry into a holding company and the conclusion of the agreement would require a permission from the worker council.

The establishment of holding companies - which can represent substantial economic power - should be subject to prior permission by the anti-monopoly authority.

The form of a holding company would make it possible to create groupings with a high degree of economic integration, while at the same time retaining state enterprises' status of legal person and statutory principles of operation. For example, this form could be used in establishing science/production centers which do not fit in with the existing arrangements.



137. In creating relatively stable organizational structures necessary to undertake projects of high unit costs, requiring cooperation among many partners, the form of a joint-stock company could be used. The joint stock companies can be formed by the enterprises themselves. It should be also possible for an enterprise to transform itself into a joint-stock company - to raise necessary funds for a planned development project (by issuing shares) and, at the same time, to provide a stable pattern of economic links between units interested in the effects of the project in question.

In creating such patterns, an important role should be played by banks. They could initiate these patterns, by participating in the financing of development projects of enterprises, through the purchase of shares.

The discussed patterns can be of multilateral and multi-tier character. To develop this form, the regulations governing transformation of an enterprise into a joint-stock company and the control of the process of company formation should be brought more up to date, and the state treasury's role in this process and in other forms of control should be enhanced. Also, the role of worker self-management in the establishment and operation of joint-stock companies should be subjected to analysis and wide discussion.

138. Room should also be provided for the creation of economic units in the form of state-treasury companies. Arrangements will have to be provided for organizational forms of activity outside the sphere of production, where at present more and more new legal forms are emerging, not subject to court registration (cultural, artistic, film institutions, etc.).

Also in operation are diverse forms of treasury-financed institutions, such as hospitals or sanatoriums of different economic/financial arrangements and management systems. In addition to other functions, all these institutions perform economic functions as well. These functions should be taken into account, to a greater degree than so far, in shaping the institutional foundations for the operation of the discussed institutions.

It is desirable to provide a uniform legal form for organizing this activity - the form which would be as close as possible to that of an enterprise. A broader use of the form of state-treasury companies should be considered. This would require changes in regulations on commercial companies - towards permitting the establishment of

companies with a single shareholder, and allowing the formation of worker self-management at companies and presence of its representatives on companies' supervisory boards, among other things.

139. Chambers of commerce and industry would be set up, grouping socialized-sector units along regional lines, irrespective of these units' organizational affiliation and form of ownership.

The chambers could provide a useful organizational platform for presenting economic units' interests vis-a-vis the administration. On the other hand, the chambers would be competent partners for the administration, taking part in the solving of major economic problems of the regions concerned. They would also be well placed to carry out large-scale, competent informational and servicing activity for its members. Economic units should be represented in chambers by their heads.

The tasks of the chambers could include the following:

- \* sending to state administrative bodies proposals, opinions, comments, information papers and questions concerning these bodies' decisions and actions;
- \* conducting research into economic processes, initiating economic projects, and facilitating cooperation among members;
- \* providing information about economic and legal conditions for enterprise operations in the domestic and foreign markets;
- \* organizing economic units' representation for negotiations on collective labor agreements;
- \* representing the interest of state enterprise managers vis-a-vis outside environment;
- \* providing information about legal regulations on commerce in Poland and abroad;
- \* providing facilities for amicable settlement of disputes among members;
- \* organizing and running vocational training institutions, and providing a system of refunds for enterprises running factory schools, to be granted when leavers are employed by other enterprises.

In pursuing their tasks, the chambers would draw on small staff, financed with members' contributions (paid from profit) and chambers' own revenue, earned from training, promotional activity, etc.

140. As far as innovation and commercialization of R&D findings are concerned, the form of commercial companies with the participation of individuals (and inventors in particular) should be drawn upon on a large scale. Adequate conditions for the establishment of such companies, ensuring stable operations and providing indispensable economic arrangements, will be laid down in the law on new technology units.

141. The extent of internal financial autonomy will be broadened, to cover labor teams and production-franchise schemes at enterprises. Accounting, financial, and labor regulations will be adjusted accordingly.

142. In order to provide conditions for more dynamic changes in the organizational structure of the economy and for more dynamic flows of physical and financial resources, existing legal regulations will have to be changed. In particular, these changes will consist in:

- \* changing the principles of the establishment of state enterprises;

- \* regulating procedures for changing an enterprise's parent body;

- \* regulating procedures for changes in an enterprise's founding act, in its part concerning the range of operations;

- \* eliminating enterprises' obligation to receive a permit [from the parent body] before it joins a voluntary association, and subjecting draft agreements on association to anti-monopoly procedures;

- \* allowing all socialized-sector units - not just state enterprises - to join associations;

- \* introducing regulations authorizing state enterprises to form and join commercial companies with the participation of any economic entity - whether socialized (state enterprise, cooperative, social organization, state treasury) or private; setting restrictions on commercial companies with the participation of private partners (either in the form of a permit from the relevant body of state administration or as minimum required share of the socialized economic unit in question);

- \* permitting the transformation of a state enterprise into a commercial company;

\* introducing legislation which will make it possible to include into commercial company charters the provisions on the formation of worker self-management in companies and presence of its representatives on supervisory boards;

\* broadening the opportunities of bond sale, also to embrace individuals;

\* introducing a law on enterprise groupings, providing the principles of establishment and operation of associations, holding companies, and chambers of commerce and industry;

\* adjusting the labor law to the requirements of labor-team schemes, especially as regards the employment status of a team member (whether or not the expulsion from a team is tantamount to termination of employment at the enterprise) and the extent of member teams' pay claims on the labor team and on the enterprise;

\* verifying regulations on commission sale and franchising, to introduce this form also to construction and component production.

143. It is expected that enterprise management teams and self-management bodies will give firm backing to the structural changes. Initiatives aimed at establishing adequate organizational structures and developing ties between economic units will be treated as important elements of the desired transformation of organizational forms of economic activity.

#### Central Control Of The Economy

144. The central control of the economy will be effected primarily through a system of indirect economic regulators. They will be supported by direct organizational, administrative, and legal policy tools, and most of these tools will be oriented to a type of activity, irrespective of what entity is involved in this activity. This will correspond to the direction of changes in the whole system of functioning of the economy, and especially to changes in organizational and institutional structures.

145. In controlling the economy, the main principle will be to create economic and legal conditions for applying economic coercion in respect to all economic entities. Policy tools and economic parameters will be so designed as to render impossible the economic existence of inefficient, uninnovating enterprises with low productivity of labor and poor quality of production on the one hand, and on the other to provide opportunities for very rapid expansion of innovating enterprises, oriented to development on the basis of their own resources and high efficiency.



146. Economic tools of central control - such as sales tax, rate of exchange, customs duties and related procedures, principles of fixed assets depreciation, principles of financial settlements in foreign trade, investment sureties on capital construction operations (as opposed to the purchase of machinery), the levels and diversification of interest rate on bank credit, principles of forming enterprise wage funds, or principles governing access to foreign exchange - will constitute important elements of the central authorities' influence upon the balancing of the economy.

147. The time frame for policy tools and related parameters will be extended, in step with increasing the rank of legal act regulating their operation.

Corporate income tax concessions, principles of depreciation and depreciation-fund division, investment sureties, and fund management are already regulated by Sejm laws and Council of Ministries ordinances. The principles and parameters of the system of wage-fund control will also be regulated in a more stable manner in two to three years' time - depending on the pace of making economic parameters more realistic and restoring equilibrium.

But exchange rates, interest rate, and - in the period to the end of 1990 - sales tax rates will be short-term instruments characterized by frequent changes.

The coordination of these tools to make them operate in accordance with the goals and principles of national socio-economic plans will be a major element of central planning.

148. In step with changing methods of control of the economy by central and local administrative bodies, the organizational and legal tools will be improved and activated.

In particular, these tools include:

- \* principles of licensing foreign trade activity;
- \* principles of licensing the exploitation of natural resources (comprehensive legal regulations covering all kinds of natural resources will have to be provided);
- \* agreements between local administrative bodies and enterprises on terms of investment-project location;
- \* principles of establishing economic entities, and the organizational forms of these entities, as permitted by the law (especially, the principles of forming commercial companies, cooperatives, financial and insurance institutions);

- \* principles of managerial staff selection and training (a central system of courses for state enterprises managers will be created);
- \* principles of assessing socialized economic units;
- \* principles of concluding trade contracts between socialized units, and responsibilities for failure to meet resulting obligations.

149. The rank of administrative tools setting constraints on enterprise operations will be raised, and their enforcement will be tightened. This concerns tools such as:

- \* permits on the import and export of goods;
- \* state environmental-protection standards;
- \* state safety-and-health standards;
- \* state standards for the safety of technological processes and designs;
- \* state standards on quality;
- \* state standards for unit consumption of materials and energy, especially in respect to product and processes of general application;
- \* bans on production, distribution, and operation of products and processes which do not meet the standards;
- \* qualification requirements for technical-inspection employees.

The extent of applying the standards will be broadened and the related requirements increased. State services studying the standards and their observance will be expanded, and state quality-acceptance services will be organized.

150. Depending on the pace of price-pattern transformation and market balancing, direct tools characteristic for a transition period of deep economic equilibrium, will be limited and abandoned. This is particularly true of:

- \* mandatory wholesaling;
- \* central distribution of consumer goods among voivodships;
- \* bans on price increases;

\* customized concessions and subsidies granted to individual organizations;

\* rationing of foreign exchange.

### Technological Progress

In stimulating technological progress, great importance will be assumed by general operating conditions for enterprises and the economy, namely economic equilibrium, economic coercion, growing role of profit, and rising proportion of foreign trade. They will provide a basis for greater interest in innovation on the part of economic units.

152. The system of central research and development programs, oriented to structural change in the economy and to more material- and energy-saving technologies, will be developed. The programs will be more selective.

As far as organization and funding are concerned, a switch will be made away from financing institutions which conduct research in preferred areas, towards contracts with research teams and individuals undertaking to resolve particular problems (with account taken of the technical conditions of the Polish economy).

153. Integration of research establishments with economic units - on the basis of mutual economic interest - will be promoted. Legal and organizational arrangements will be provided to make possible the establishment of science/production centers. These arrangements will ensure, on the one hand, full coordination of activities in both spheres - science and production - necessary to obtain the final effect, i.e., greater innovativeness, and on the other, will provide for separation of these activities, as necessitated by their specific features. Special role will be played by forms involving capital links, such as commercial companies or holding companies.

154. Government orders on the commercialization of R&D findings will be applied. To a growing extent, these orders will be placed with production units and future users.

The government orders system will be backed up with central funds already accumulated in the Central Fund for New Technology (CFNW) and with foreign exchange resources at the disposal of the New Technology Office (UPNTiW). Tax and credit facilities will also be provided.

A growing role in initiating government orders will be played by sectoral ministries which, drawing on their

knowledge of the state of R&D work and of lines of development preferred by state economic policy, will be looking for production units capable to embark on the commercialization of R&D findings.

155. As regards the financing of technological and scientific progress by enterprises, the existing arrangements will be made more flexible. Enterprises' freedom in forming their funds for technological and economic progress and in spending the resources of these funds will be broadened.

A first step was made in 1987, when the principle of dividing the fund into a centralized portion (and a portion held by the enterprise) was discarded and when enterprises were allowed to regulate rates of deductions to this fund (although, for the time being, they can change the rates set in the [five-year] National Socio-Economic Plan by no more than a quarter).

In the future, it may be considered whether the system should not be changed towards financing R & D projects - both those involving research and investment activity - directly from pre-taxed profit (with the right to create reserves for this purpose, if need be). This would impart full flexibility to the system, and would prevent any discrepancies between the financial resources for research and enterprises' investment capacity.

156. Enterprises' right to form the new technology revenue fund (additional remuneration for inventors and innovators) will be drawn upon more widely.

157. The system of appraisal of the technical level of production will be developed. On the one hand, it will constitute an element of enterprise assessment, and on the other, will provide a basis for setting state technical standards and imposing bans on production, distribution, and operation. These measures will have the effect of increasing pressure on enterprises and stimulating their interest in innovation - in addition to pressures generated by balanced markets.

158. Much greater opportunities will be provided for establishing enterprises which undertake to apply selected R & D findings on a commercial basis. Inventors and innovators will be allowed to hold shares in such firms, and to earn high incomes from these shares. Stable and convenient economic conditions for such units, irrespective of their form of ownership and organization, will be provided in the law on new technology units.



## Control Of Foreign Trade

159. The following tools will be applied to boost Poland's share of world trade, and especially to orientate enterprises towards exports:

- \* the rate of exchange and pricing principles in foreign trade;
- \* tax concessions and awards;
- \* access to foreign exchange;
- \* licenses for producers to carry out independent foreign trade operations.

In step with the balancing of the economy, priorities in access to production supplies will be losing their importance.

160. The rate of exchange will be consistently adjusted to real conditions of export. The rate should be set - flexibly and as soon as possible - at a level ensuring the profitability of exports, excluding the exports of food and farm produce. The levelling of economic conditions between the export of food and farm produce and the remaining exports will be obtained with the help of systemic regulations. The changes in the exchange rate will be continuous rather than discrete.

Foreign trade settlements will be increasingly based on [foreign] transaction prices, and the customs duty will become an active tool of influencing lines and pattern of imports.

161. Producers' access to foreign trade licenses will be broadened. Virtually any producer of exported goods will be eligible for a license. At the same time, the range of items covered by licenses will be expanded, especially to cover goods and services from kindred industries. The practices of restricting producers' rights to change a foreign trade agent will be opposed. Various types of foreign trade agencies servicing small exporters will be created.

162. Barter and other countertrade deals will be drawn upon on a larger scale - especially in trade with Third World countries, in respect to goods and services which are not traditional exports to markets in question. It is desirable that in the case of such exports, countertrade deals should be [automatically] allowed in respect to a

portion of export growth, without the need to obtain individual permits.

163. The system of concessions in corporate income tax and in wage-fund principles will be retained. The amount of concessions will be linked to export profitability, and their general level will be set in such a way as to impart to them the greatest importance in the whole system of concessions.

Tax concessions will be accompanied by credits in zloty and foreign currency. A special role in initiating and supporting export-oriented development projects will be played by the Export Development Bank (BRE).

164. The system of export-revenue allowances [RODs] deposited by exporters in ownership accounts will be broadened. The amount of allowances will be tied to the profitability of exports. Uniform rates for ROD allowances will be gradually introduced. The ROD system will provide the principal source of import financing for enterprises in the sphere of material production. In step with the rise of trade in ROD resources, the central allocation of foreign exchange and the centrally-financed imports will be curtailed.

Enterprises will be allowed to sell and buy foreign exchange funds deposited in ownership accounts - in auctions run by a bank. For nonexporting enterprises, the auction system will provide the main line of access to foreign exchange. Traded at the auctions will be rights to purchase foreign currencies. The buyer of such a right will pay with its development-fund resources which will add up to the development fund of the seller.

165. Support will be given to any measure aimed at direct cooperation with enterprises from socialist countries and at the establishment of joint enterprises. As part of CMEA's work on bringing individual countries' economic mechanisms closer to each other and on improving plan coordination, steps will be taken to unify cost accounting principles and to assign greater sum totals (in plan coordination protocols) to be disaggregated in direct contracts between enterprises.

166. Favorable organizational and economic conditions will be provided for the development of joint ventures with partners from convertible payments zone countries, on the strength of the existing Joint Ventures Act.

## IMPLEMENTING PRINCIPLES

167. In the coming two to three years, we must make a real breakthrough in the system of functioning of the economy, starting with areas closest to people's needs, such as agriculture, procurement and processing of farm produce, industrial production of consumer goods, the domestic market for goods and services, and housing.

Another important area in need of deep and quick changes is foreign trade, and everything that is connected with opening up to outside world. In this connection, a new map of the Polish economic reform is being prepared.

168. The delays in implementing the reform, the growing impatience of the public, and the backlog of more and more difficult reform-related tasks make it necessary to modify the strategy of the implementation of the reform.

The central economic institutions should tangibly step up their activity in the reformatory process, adjusting the scope of their interest and the pace of their work to the magnitude and intensity of support for the reform on the part of the country's political forces. The Planning Commission and the functional (horizontal) ministries should focus their attention on presenting implementing programs, containing clear-cut concepts of changes, legal framework for this concept, methods of its introduction into practice, and expected economic and social consequences. The industrial ministries and other sectoral ministries are obliged to prepare programs on the implementation of the reform in their respective areas, in accordance with general guidelines of the Government.

All ministries and central offices should take advantage of the potential of research establishments and design offices to intensify the implementing work.

The government will make periodic assessments of the implementation of the reform in selected areas of the national economy.

169. In order to ensure a determined and effective implementation of the reform, to correct wrong implementation or misuse of the existing arrangements, and to enforce punctual preparation and implementation of new arrangements, an interministerial team for the implementation of the reform will be appointed in the second quarter of 1967. The team will consist of: a vice-chairman of the Planning Commission, vice-ministers at functional ministries responsible for

systemic matters, a vice-president of the National Bank of Poland, a secretary of the Party and Government Commission for the Modernization of Organizational Structures in the Economy and the State, and a secretary of the Commission for the Reform of Civil Law.

The tasks and powers of the team will include:

(a) organizing cooperation among state administrative bodies in preparing and implementing individual arrangements provided for in the program on the second stage of the economic reform; initiating the commissioning of studies from research establishments;

(b) monitoring the process of change in institutions and in instruments, as provided for under the reform program, and taking appropriate initiatives;

(c) discussing proposed arrangements presented by individual bodies of state administration - after consulting the relevant working groups of the Economic Reform Commission;

(d) studying and assessing all irregularities and drawbacks in the implementation of the reform, and initiating corrective measures - drawing for this purpose on the possibility of inviting any representatives of central and local bodies of state administration and bodies of enterprises and other socialized economic units, in order to obtain necessary information and explanations;

(e) informing the Economic Reform Commission, at quarterly intervals, about the course of work on the implementation of the second stage of the economic reform;

(f) organizing the provision of information on the introduced systemic arrangement for economic units and state administrative bodies;

(g) cooperating with the task force for the explanatory and informational campaign, set up on the strength of the 10th PZPR Congress resolution, in preparing materials for consultative activity carried out by the task force.

170. Measures aimed at balancing the markets and setting economic parameters at realistic levels are pivotal for the pace of the reformatory process. Work on the principles of transforming the price pattern will be



carried out in the first place, so that one of three variants could be chosen still in 1987. Involved in this work will be the Finance Ministry, the Government Planning Commission, the Ministry of Labor, Pay, and Social Security, and the National Bank of Poland.

The following will be determined in the first place:

- \* opportunities for reducing the indispensable extent of price rises in each variant;
- \* the correct level of the rate of exchange (from the viewpoint of both the future structure of prices and the requirements of export);
- \* the feasible extent of price subsidizing, as determined by economic and social considerations;
- \* the level of the interest rate;
- \* the principles of price control in conditions of departure from the cost-plus pricing formula;
- \* the principles of social benefits revaluation in the course of transformations in the price pattern.

171. The following measures will also be undertaken this year:

- (1) speeding up and broadening the practical application of procedures provided for in the State Enterprise Financial Recovery and Bankruptcy Act;
- (2) introducing legislation on changes in the principles of pay-fund formation and division in the sphere of nontrading institutions, financed by the treasury;
- (3) introducing new pay principles for enterprise directors;
- (4) organizing and running courses on the functioning of enterprises in the second stage of the reform for the managerial personnel of enterprises and bodies of economic administration; the courses will also be open to self-management activists;
- (5) verifying the principles of granting foreign trade licenses, and widening the extent of socialized enterprises authorized to carry out foreign trade operations;
- (6) launching the system of trade in export revenue allowances among socialized enterprises;

(7) launching the system of assessing the technical level of products in the engineering and chemical industry;

(8) adjusting the value of fixed assets to the 1987 level of prices, including the adjustment of depreciation charges; defining the principles of constant adjustment of the value of fixed assets;

(9) opening up the procurement and distribution of mass agricultural products (meat, grain, fish, etc.) for processing units and for other units undertaking to specialize in distribution.

172. Further short-term measures, to be undertaken in 1987-1989, will include:

- \* radical restriction of mandatory wholesaling of raw and intermediate materials and machinery;

- \* reduction of the extent of government orders for standard articles;

- \* transformation of the system of subsidies, including changes in the beneficiaries of subsidies and in the manner of setting subsidies to food and farm produce and to housing;

- \* amendments to the law on enterprise wage systems and adjustment of enterprise wage systems to conditions arising from the new approach to collective labor agreements and from the requirements of enterprise self-financing;

- \* transformation of the principles of financing housing construction;

- \* separation of the PKO savings branch from the National Bank of Poland, coupled with changes in its range of operations;

- \* introducing the tax-book system for small enterprises;

- \* verification of agreements on enterprise association, from the viewpoint of fight against monopolistic practices.

173. In addition to work on current implementation of the reform, the relevant establishments will conduct conceptual work on those issues which have not been specified in detail in the first stage of the reform and on entirely new problems of functioning of the economy.

Following are some issues to be considered by the Economic Reform Commission in 1987-1989:

- \* the concept of shaping organizational structures in the economy (at a joint meeting with the Party and

Government Commission for the Modernization of  
Organizational Structures In the Economy and the State);

- \* draft bills on chambers of commerce and industry and on groupings of socialized-sector enterprises;
- \* proposed changes in the labor law;
- \* proposed transformation of the banking system;
- \* proposed transformation of the tax system and the system of enterprise finances;
- \* proposals on the functioning of municipal property;
- \* proposals on the system of taxing the population's personal incomes;
- \* the concept for the system of settling disputes among economic units;
- \* proposed transformation of the system of pensions and social benefits.

174. Society's supervision over the course of implementing the second stage will continue to be exercised by the Economic Reform Commission.

This supervision should consist in:

- \* discussing annual assessments of the operation of mechanisms of the reform, and formulating conclusions on ways of further implementation of the reform;
- \* discussing quarterly information papers on progress in preparations for the implementation of second-stage arrangements;
- \* formulating opinions on draft bills on systemic changes in the economy and other draft documents of special importance, upon their submittal to the Council of Ministers;
- \* setting standing and ad hoc working groups to work out detailed arrangements for individual segments of the system of functioning of the economy;
- \* organizing a system for explaining the economic law to economic entities - by setting up a team for the explanation of the economic law, comprising representatives of the Economic Reform Commission, leading theoreticians and practitioners, and representatives of the Supreme Court, the Supreme Administrative Court, and institutions dealing with the settling of disputes between economic organizations.

Secretariat of the Economic Reform  
Commission

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